Explaining Microfinance’s Resilience: The Case of Microfinance in Australia


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Microfinance has been unsuccessfully deployed as a poverty reduction strategy in the Global South. However, despite advocates acknowledging this shortcoming, the sector continues to grow. Moreover, over the past decade it has expanded its geographic scope, targeting poor communities in the Global North under the banner of financial inclusion. This article investigates the growth of the Australian sector. Analyzing the impacts of reforms to Australia’s social security system alongside the political economy of the microfinance industry, it argues the debtfare state in Australia has provided fertile ground for microfinance’s expansion. Documenting the advocacy strategies and tools to target vulnerable communities used by microfinance organizations and corporate partners, it charts how government support and subsidies have created a favourable regulatory environment, driving the sector’s growth. This has benefitted these coalitions while displacing other forms of social security, despite the lack of robust evidence demonstrating microfinance’s benefits for the poor.

Introduction

Microfinance has served as a key strategy in neoliberal development policy in the Global South since the 1980s. Currently, the microfinance industry is estimated to be valued at US$60–100 billion, with 200 million, mostly women, clients (World Bank, 2015). Since its large-scale deployment by development institutions in the 1980s, it has faced criticisms. Individual practitioners and academics voiced concerns. More recently, key actors within the industry – including the World Bank and its Consultative Group to assist the Poor (CGAP, 2003), a global microfinance policy architect and advocate – have acknowledged its limitations, particularly the limited evidence demonstrating that it functions as a tool for poverty reduction.

Despite these criticisms, the microfinance industry continues to grow. CGAP reports that international funding ‘reached a historic high of US$37 billion in 2016’, a 9 per cent increase from the previous year, with this increase driven by private, as opposed to government, funding (CGAP 2017). The microfinance industry has also continued to expand its geographic reach, taking root in the Global North over the past two decades. The Global North has long been the location of global microfinance capital, architects, and advocates, but in recent years, it has also become a site where microfinance products are marketed and consumed. As Williams (2004) describes, this expansion has
taken place at the same time as employment opportunities for large sectors of the community have contracted and entrepreneurship has been promoted as a solution to un(der)employment. Like the continued expansion of microfinance in the Global South, its growth in the Global North has occurred despite increased acknowledgement of microfinance’s lack of effectiveness as a poverty reduction tool.

This article investigates how the microfinance industry remains robust. It does this by considering the growth of a largely unexamined case: the Australian microfinance industry. It focuses on Australia because Australia continues to have high levels of waged workers, social security, and formal credit. In the few works on microfinance in Australia, scholars have explained the industry’s growth as a result of a philanthropic or moral concern to provide ‘a path to engagement to mainstream lenders’ for the poor and ‘uncreditworthy’ (Canale, 2010; Dale, Feng, & Vaithianathan, 2012; Voola, 2013). We question this view, instead considering the growth of the sector in relation to trends in Australian financial markets and social security. The article has two objectives: first, to document how the Australian microfinance industry is similar and different to the schemes that have been advanced by the global development institutions and deployed across the Global South; and second, to explain how its expansion relates to broader trends of marginalized communities relying on debt, what Hudson (1996) refers to as the ‘poverty industry’. Like Soederberg (2014, p. 2) this article seeks to bring into dialogue related trends in the poverty industry and their impacts on poor people across the globe, exploring the ‘cross-cutting relational factors of the industry writ large’.

The article first describes the characteristics of the microfinance industry, outlining the critiques that have emerged since the 1990s. Second, the article draws on Soederberg’s conceptualization of the debtfare state in considering how credit and its role is socially constructed in capitalist societies. Third, the article analyses shifts in social security provision in Australia since the 1990s, charting its reduced accessibility alongside the stagnation of welfare payments and incomes and increased household debt. Fourth, the article analyses the political economy of the Australian microfinance industry, considered through two key microfinance organizations: Good Shepherd Microfinance and Many Rivers Microfinance. Examining annual reports and other public documentation, this section documents: (a) the characteristics of financial products; (b) how these entities are financed and regulated; and (c) how products are marketed and advocates’ claims of their benefits. This evaluation is embedded within analysis of the social relations that have accompanied the Australian government’s ‘work first’ approach to social security and the contestation this has engendered.

The article documents the tensions that exist at all levels of microfinance in Australia – capital procurement, regulation, research, and marketing – between the fiduciary interests of institutions involved in advocating microfinance and the interests of the poor. Operating under the banner of
‘financial inclusion’, the Australian government’s regulatory support and subsidies displace resources from other forms of social security, despite the lack of robust evidence demonstrating microfinance’s benefits for the poor. However, the emergent Australian microfinance sector does benefit the banking, mining, and retail sectors, with partnerships facilitating companies’ access to profitable customers while contributing to their corporate social responsibility portfolios. The article argues the sector’s growth in Australia, like that of the Global South, reflects the shared impetus among microfinance organizations and governments to make financialization palatable, while furthering the disciplining and reproduction of the surplus population. The sector’s growth, consequently, functions in mediating – but not ameliorating – the tensions of the debtfare state.

**Microfinance does not work: long live financial inclusion**

Microfinance describes financial services using small or micro amounts of money. These micro loans, savings, insurance, and remittances target people with very low incomes, such as subsistence farmers and petty traders, often women, in the Global South. Traditionally, banks do not lend to these low-income earners because they lack collateral or reside in remote areas where services are limited. Many schemes specifically target women low-income earners and promote female entrepreneurship as a solution to poverty. Despite a change of terminology from microcredit (1980s) to microfinance (1990s) to financial inclusion (2010s), loans remain the predominant form of microfinance and lending to the poor the main business of financial inclusion (Karim, 2011). Some microfinance is supplied with capital from the state, some from financial markets, while some circulates through a form of rotating funds. All of these sources of capital can be mobilized through loans to individuals or through group lending. Group lending classically consists of a group – typically women – lending to each other in turn. Members are responsible if someone defaults, leading to incredible social pressure to repay. Nearly all forms of microfinance consist of money lent at interest.

Since the late 1970s, international organizations and economists such as Claudio Gonzalez Vega from the Ohio School of Economics pushed microfinance from a state-subsidized to a profit-driven model. The Ohio School argued that providing loans to the poor at commercial rates through banks, rather than subsidized through the state, would avoid the inefficiency and corruption inhering in state-led development projects in the Global South (Gonzalez-Vega, 1977; Mader, 2015). On this view, providers that subsidize clients’ interest rates are considered to be ‘unsustainable microfinance’ (Ravicz, 1998). The move to deregulated and unsubsidized microfinance with rates of at least 25 per cent per annum saw increased investment and attention to microfinance as a development tool, with
its rapid uptake, profitability and replication across the Global South amounting to a ‘microfinance revolution’ (Robinson, 2002).

From the late 1990s, the World Bank’s ‘inclusion agenda’ placed microfinance at the centre of donors’ poverty reduction programmes. Simultaneously, international investment in microfinance became profitable (Reille, Forster, & Rozas, 2011), exemplified in the profitable sale of large state-owned microfinance companies (Lieberman, Anderson, Grafe, Campbell, & Kopf, 2008; Mader, 2015, pp. 67–8). Moreover, the growth of the industry was aided by the rise of digital payments through new platforms (including mobile networks, social media and blockchain), enabled by the movement of new actors into the industry, notably tech companies and philanthrocapitalists. Microfinance has thus been part of the ‘deep marketization’ of development, where innovative policy instruments seek to create an enabling environment for capital accumulation by realizing commodification (Carroll, 2015). In the case of microfinance, the World Bank and the International Finance Corporation have supported the creation and expansion of financial intermediaries that ‘secure “access to finance” in the name of development’, facilitating financial markets setting the conditions for (under)development (Carroll, 2015).

Despite microfinance’s centrality in development, decades of qualitative and quantitative evaluations have shown that it does not reduce poverty, increase household incomes or business profits, improve saving rates, or empower women (Angelucci, Karlan, & Zinman, 2015; Bauchet, Marshall, Starita, Thomas, & Yalouris, 2011; CGAP, 2014). For instance, a systematic review of randomized control trial evidence from sub-Saharan Africa showed that microfinance had very limited impacts on incomes: some grew richer while some became poorer, leading to zero overall impact (Stewart, van Rooyen, Dickson, Majoro, & de Wet, 2010). Rigorous impact assessments have also found no evidence for microfinance’s positive impact on women’s empowerment (Cull, Ehrbeck, & Holle, 2014; Duvendack et al., 2011). Researchers within a gender and development approach have also pointed to deep problems with microfinance for women’s empowerment: on the one hand, women were targeted because they were more likely to repay; on the other, women already structurally disadvantaged relative to male dominated families and communities were often made more physically and economically vulnerable through microfinance (Goetz & Sen Gupta, 1996; Rah- man, 1999; Rankin, 2001). Regarding overall development, some authors have suggested that without broader service provision such as health, welfare and housing, microfinance does not positively impact development (Ahlin, Lin, & Maio, 2011). More recently, even those previously supportive of microfinance have drawn attention to its shortcomings (The World Bank, 2015).

As microfinance’s limitations have become increasingly clear and acknowledged, advocates now promote it using the term ‘financial inclusion’. Financial inclusion describes increasing poor people’s
access to formal sources of credit and insurance delivered by regulated institutions (CGAP, 2018). In other words, like microfinance, it entails lending small amounts of money to people to whom banks do not usually lend. Innovation in terminology in the financial sector is therefore fast paced, even though the basic business of selling and reselling debt remains the same (Lyman, Shrader, & Tomilova, 2015). The World Bank, the International Finance Corporation, and CGAP have led global advocacy for financial inclusion. In 2010, this coalition lobbied for financial inclusion to be part of the G20’s strategy to meet the United Nation’s sustainable development goals, marking its ascendancy in the domestic politics of the Global North (GPFI, 2017).

At a macro level, the theory of change behind financial inclusion is that rich economies have higher numbers of financial providers and products and this is a causal factor of economic growth and the citizenry’s wealth (CGAP, 2018). Thus, ‘financially including’ large numbers of people by extending financial products to them will increase the growth and wealth of a country. On a micro level, financial inclusion advocates continue to argue for the same – unproven – theory of change claimed for microfinance: the individual use of credit will increase an individual’s wealth by either providing an income through entrepreneurship or allowing those with unreliable incomes to smooth consumption (Bauchet et al., 2011). In more activist definitions, financial inclusion ought to include programmes to build a poor citizen’s capacity to use financial products so they do not become over-indebted or victims of predatory lending. After the 2007–8 financial crisis, banks and other financial institutions suffered reputational damage as a result of predatory lending in sub-prime markets (Gwinner & Sanders, 2008, p. 25). Financial inclusion is, thus, a timely appeal to the decades-old trope of ‘democratizing credit’ (Soederberg, 2014, p. 72). Financial inclusion also coincides with banks beginning to target poorer ‘segments’ of the Global North (Harrison, Ti Gray, & Consumer Action Law Centre, 2012), as we describe in the Australian case below.

**State forms and microfinance**

Critical analyses of microfinance have long argued it should be considered not as the further advancement of neoliberal development, but instead as a key component of this process and indeed, constitutive of it (Rankin, 2001; Soederberg, 2014; Weber, 2004). Materialist state analyzes offer a means of conceptualizing this relationship by highlighting how microfinance and its disciplinary capabilities intersect with neoliberal state forms, and by attending to the social relations that are embedded in and reproduced through these interactions. Crucially, these accounts do not assume credit has a ‘natural’ form or function, instead focusing on how credit and its role is socially constructed. As noted by Soederberg (2014), this means attending to the power relations that underpin
credit and its function in the wider dynamics of capital accumulation, including consumption, production and social reproduction.

Soederberg describes the debtfare state as involving ‘coercive and ideological processes aimed at naturalizing and normalizing the widespread reliance on, and discipline of, credit to augment and/or replace the social wage’ (2014, p. 499). She identifies three core components to debtfare states: monetarism, corporate welfarism, and workfarism. Monetarism, as the targeting of the inflation rate through manipulating the interest rate to manage an economy’s money supply, is premised on the idea that markets achieve full-employment equilibrium and provide opportunities for those willing to work, making redistributive policies unnecessary. A macroeconomic policy that targets the inflation rate rather than the unemployment rate, as pursued under the Bretton Woods order, has significant class implications. While inflation is a concern for ordinary people, particularly those on fixed incomes, it is also a concern for those profiting from consumer credit because it undermines the rate of return on their products. Consumer credit ‘is privately created and thus increases in volume in a disorderly (unregulated) manner to deal with the barriers of capital accumulation’ (Soederberg, 2014).

If there are excessive levels of privately created credit money, this creates deflationary pressures that downgrade money as a store of value. Consequently, a macroeconomic policy targeting the inflation rate not only shifts attention away from the unemployment rate and poverty, but – because of its connections to class-based power – is a political act (Soederberg, 2014).

Monetarism is undergirded by the second core component of neoliberal state forms: corporate welfarism. Soederberg (2014, p. 54) describes it as a state strategy of ‘[creating] a pro-competition and pro-business policy environment that will attract and retain corporations’, what has also been termed competition states (Cerny, 1997). Neoliberal states focus on creating attractive investment environments in which companies flourish, on the assumption that companies create jobs. Redistributive measures and restrictive regulation are viewed as distorting price signals for individuals and companies, and dulling competitive incentives. Corporate welfare measures play a key role in mediating the tensions arising from capital accumulation, such as the channelling of workers’ pensions into corporate stocks and bonds that make workers’ economic wellbeing in retirement dependent on companies’ performance.

Monetarism and corporate welfarism generate the regulative and rhetorical landscape in which credit-led accumulation functions. Distinct from these is the third component of neoliberal state forms: workfarism. Workfarism facilitates the reproduction of the surplus population, inherent to the process of capital accumulation. From the 1970s workfarism replaced welfare state strategies for disciplining workers, with governments instead reducing the accessibility of social security to generate a willing and compliant workforce. Making social security residual contributes in framing unemployment as
the consequence of individual characteristics, rather than the outcome of broader economic processes. In this way, workfarism also serves a demobilizing function, encouraging atomizing rather than collective responses to unemployment. The reduced accessibility of social security has occurred in the context of the shift away from demand-side job creation through the neoliberal restructuring of many countries’ economic activities – such as reducing state support for manufacturing sectors – that has increased unemployment (McDonald and Marston, 2005).

These three components of the neoliberal state normalize people’s reliance on credit in the absence of a social wage. These processes highlight the need to interrogate the equalizing tropes of ‘financial inclusion’ and the ‘democratization’ of credit that the microfinance industry uses to market its products. The primary method of ‘democratizing credit’ is risk-based pricing, whereby those that are deemed less able to pay back a loan are charged higher interest rates and fees by the creditor, this being a key component of microfinance’s profitability (Soederberg, 2014, p. 72).

The microfinance industry’s global growth – despite the lack of evidence demonstrating its claimed benefits – should therefore be considered alongside ‘the mediating power of the state’ (Rankin, 2001, p. 19). For states in the Global South, microfinance has a long history of standing in for welfare or investment in demand-side job creation (Soederberg, 2014), and shifting the responsibility for poverty from structures to agents. In considering how and why governments and companies have facilitated microfinance’s growth, the subsequent section describes changes to Australia’s social security since the 1990s.

**Australia’s social security: welfare to work**

Social security policy is key to understanding the operation of capitalism because of the centrality of the state in shaping how capitalist relationships are reproduced. And, as noted by Grover and Soldatic (2013, p. 224) it is working-age people that are ‘located at the intersection between being in and out of work, between perceptions of responsibility and fecklessness, “dependency” and “independence”’, meaning social security policy either aids or impedes accumulation regimes relying on paid employment.

The terms and conditions under which social security is accessed are socially constituted along class, gender and – notably in settler-colonial states – racial lines. This is because the ambit of social security systems ‘almost always cuts across the ideological divide between the public domain of the market and the private domain of home and family’ (Shaver, 1989, p. 93). Social security provisions are classed in that regulations governing eligibility are a product of class relations and determine
one’s relationship to labour markets, stipulating the terms on which labour is decommmodified. Provisions are gendered in that regulations governing eligibility are articulated in terms of household structures and relationships between members. Female-headed households in Australia are particularly vulnerable to poverty (Goodwin & Voola, 2013). Finally, they can be racialized if eligibility is based on race, such as the 1977 Community Development Employment Program where indigenous people worked for unemployment benefits, this being a precursor to the broader Work for the Dole scheme (Henman, 2002, p. 80). The social constitution of race in Australian social security is not a historical artefact, evident in the 2010 Northern Territory Emergency Response, described below.

Australian social security functions as a ‘(very temporary) backstop’ for the primary mode of welfare: work (Carney, 2011, p. 235). This characterization has been particularly pertinent since the 1990s with the Australian government’s promotion of ‘mutual obligation’, focusing on enabling people to work. This has been implemented through the narrowing of eligibility criteria, the introduction of activity tests, the strengthening of sanctioning regimes, and the stagnation of payments, driving labour market participation. The circumstances of social security applicants may not have substantially changed over this period, but the process of categorizing applicants has markedly shifted, with the Australian government narrowing its view of who constitutes the ‘deserving’. This shift has been most pronounced since the Howard Coalition government (1996–2007), which adopted a ‘work first’ approach in its broad Welfare Reform Review that sought to restrict payments to working age people (Marston & McDonald, 2007). Reforms emphasized individuals’ self-reliance and the importance of the sustainability of welfare expenditure, framing poverty not as having economic drivers nor as a socio-economic problem, but as a burden to taxpayers (Henman, 2002, p. 73).

The restructuring of social security to drive labour market participation is apparent in disability payment reforms. Under the Hawke Labour government in the early 1990s the eligibility criteria was tightened, with the introduction of a medical impairment test alongside a test to determine if applicants could work at least 30 hours per week. With the Howard Coalition government’s ‘work first’ approach, eligibility was narrowed, with applicants that could work a minimum of 15 hours deemed no longer eligible. This trend continued under the Rudd Labour government, with the impairment test again tightened alongside the introduction of an additional medical test (Grover & Soldatic, 2013). The Gillard Labour government then included activity requirements for claimants under the age of 35, where those that are assessed to be able to work 8 hours a week must attend regular interviews where they develop a signed participation plan ‘to help them build their capacity’ (DHS, 2018b). Hence, governments have increasingly narrowed eligibility for disability support while expanding activity requirements to facilitate labour market participation. These trends are observable
in social security provisions for the unemployed and low-income parents (Carney, 2007; McArthur, Thomson, & Winkworth, 2013).

This emphasis on labour market participation through social security reform shifted attention away from the structural drivers of unemployment and onto recipients’ behaviour, driving the introduction of new conditionalities that incentivise or sanction specific behaviours (Carney, 2011; Henman, 2002; Taylor, Gray, & Stanton, 2016). Taylor et al. (2016) characterize all new conditionalities as inherently paternalistic, in that they are based on the claim that the government knows what is best for recipients, and as punitive, in that there are few incentives for changing behaviour while non-compliance is met with monetary sanctions.

New conditionalities have been introduced primarily in policies concerning children and workforce participation. One example is the New Income Management programme, which replaced the Northern Territory Emergency Response in August 2010. New Income Management has affected more than 35,000 people since its introduction (Bray, Gray, Hand, & Katz, 2014). It operates by placing restrictions on the spending of payments, with the managed portion not being withdrawn as cash or spent on alcohol, tobacco, pornography, or gambling. The programme is operationalized through the Basics Card, which can only be used in approved stores for non-prohibited goods. The extensive evaluation completed by Bray et al. (2014, p. xxi) found ‘a substantial group’ of participants found it ‘unfair, embarrassing and discriminatory’. The evaluation didn’t find any substantive evidence that the programme had significant changes on people’s behaviour, with no changes in spending patterns and no evidence of an improvement in financial wellbeing nor on measures of community wellbeing, including for children. Its authors assert: ‘rather than building capacity and independence, for many the programme acted to make people more dependent on welfare’ (Bray et al., 2014, p. xxii).

This trend of withdrawing social security to drive workforce participation must be considered within the context of the administration of the Australian social security system. In 1997 a statutory ‘payment agency’, known as Centrelink, became responsible for the administration of all federal payments. Previously, the Department of Social Security was responsible for policy and administration. This contractual relationship between Centrelink and relevant government departments saw Centrelink positioned as an implementing body. In doing so, it was excluded from having any autonomy over policy as well as being removed from the process of developing and regulating policy. The expanded role of contractual relationships in the Australian social security system shield social security provision from the public gaze and make it less responsive to external review (Carney, 2011), such as the evaluation above highlighting programme ineffectiveness.

Narrowed eligibility and increased activity tests have been introduced alongside greater sanctions for non-compliance, captured in the expansion of measures to prosecute social security fraud. The
Australian government has long sought to develop a highly automated system characterized by rigid eligibility categories. Indeed, Carney characterizes Australian social security policy as having been ‘written, in reverse-engineered fashion, to “run on the Centrelink computer”’ (2011, p. 236). This has seen Australia become a world leader in the technological management of social security, and it has used this infrastructure to pursue ‘overpayment’. The most high-profile of these measures began in July 2016 when Centrelink launched an online compliance intervention (OCI) system for raising and recovering debts. The system matched a recipient’s earnings, as recorded by Centrelink, with historical employer-reported data from the Australian Taxation Office. A key issue was that the OCI system did not adequately differentiate between recipients’ annual income and their granular fortnightly earnings, from which payments were assessed. The process used in the OCI system didn’t comply with the information made available by the Department of Human Services on how income is verified when investigating debts (DHS, 2018a; Eltham, 2017). This led the OCI system to identify many recipients as having been overpaid, after which they received debt notices with 21 days to respond. In some cases the disputed payments related to income earned six or seven years ago, making verification exceedingly difficult. From 1 January to 30 September 2017, Centrelink issued more than 326,200 debt notices (Medhora, 2017). The Department of Human Resources later presented to Parliament documents showing that 19,980 debt notices were either reduced or rescinded, with this figure excluding the potential errors where recipients did not challenge the claim (McIlroy, 2017). The Commonwealth Ombudsman found that Centrelink did not communicate properly with recipients, such as providing appropriate information on how to respond; staff did not have sufficient training; and the OCI system placed ‘unreasonable’ expectations on claimants (Glenn, 2017).

These trends of declining eligibility, increased activity requirements and stronger sanctioning regimes have occurred alongside the stagnation of payments. The Newstart allowance, or unemployment payment, is paid at the rate of $545.80 per fortnight (DHS, 2018c) falling far short of the minimum wage at $694.90 per week, based on a 38-hour week (Fair Work Commission, 2017). This rate has not increased in real terms for 25 years, prompting a diverse range of social groups to support increasing it, including Deloitte Access Economics senior partner and economist Chris Richardson, who called its current level ‘unnecessarily cruel’, as well as the Business Council of Australia and the Australian Council of Social Services (Manning, 2018).

The Australian government’s ‘work first’ approach has thus been enacted through narrowed eligibility, increased activity requirements, stronger sanctioning regimes, and stagnating payments. This form of workfarism has emerged alongside stagnating incomes and increased household debt. From the 1990s, the ratios of household income to both housing prices and household debt increased considerably. These ratios increased from the mid-1990s to the early 2000s, after which they
stagnated, and then increased again to record highs. A key reason for this most recent rise is the stagnation of incomes, with aggregate household income increasing at the rate of approximately 3 per cent over 2012 to 2016, down from 7 per cent in the 2000s (Lowe, 2017, p. 126). While the increased ratios of household income to both housing prices and household debt have been driven by those on higher incomes taking advantage of low interest rates, approximately 34 per cent of mortgage holders are either in arrears or have less than a month’s repayment in advance, meaning a third of mortgagees have only a small buffer (Lowe, 2017, p. 128). The spike in household debt for mortgagees has also been accompanied by the rapid growth of unsecured debt for consumption. Harrison et al. note from 1992 to 2012, ‘unsecured credit card debt in Australia ... increased dramatically by 12 times to a total of almost $50 billion’, with over 70 per cent, or $36 billion, accruing interest (2012, p. 8). These dramatic increases in personal debt are of particular relevance when considering the role of finance for poorer Australians, particularly the working poor as one of the target populations for microfinance, described below. This is because decreased social security access and stagnating payments and incomes expands the profitability of debt for the working poor.

The new financial inclusion in Australia

Against the backdrop of government reforms to reduce social security access, stagnating payments and incomes, and increased household debt, market-led policy solutions for dealing with the poor and economically marginalized that are widespread in the Global South have come to Australia. Financial exclusion is defined as lack of access to financial services provided by a formal institution. In Australia, the vast majority of people hold an ordinary savings bank account and thus, financial exclusion refers exclusively to lack of access to credit and insurance from a mainstream provider (SPP and GSM, 2014, p. 8), with ‘severe exclusion’ defined as ‘having just one [financial] product’ (CSI and NAB, 2013).

Australian banks have aligned themselves with microfinance providers to push for government regulation of the sector. Two events prompted this coalition to push for specific regulations. First, in 1998, interest rate controls were deregulated, leading to rapid, double digit growth in payday lending revenues (Ali, 2013). Second, the 2007–8 crisis created greater awareness and criticism of predatory lending. The Australian government launched an inquiry into consumer credit, which saw non-banks banned in 2013 from making short-term loans (under 16 days) (Financial Services Royal Commission, 2018, p. 64). In addition, interest rates on loans above $2,000, which were previously only capped in some states, were subject to a cap of 48 per cent. Crucially however, the banks, as ‘authorized deposit taking institutions’, were exempted from these tightened regulations.
(Commonwealth of Australia, 2012; Financial Services Royal Commission, 2018, n. 416), as it was argued banks needed to have ‘certainty where they may otherwise inadvertently breach the cap’ and were already subject to other regulations (Commonwealth of Australia, 2012, s. 5.48).

Alongside these measures to reduce payday lending by non-banks, the Australian government supported the agenda of financial inclusion (DSS, 2018c). Good Shepherd Microfinance (GSM) was a key advocate, tasked with and funded by the Australian Government to create the Financial Inclusion Action Plan (FIAP) in accordance with Australia’s commitments under the G20’s financial inclusion agenda. Much of the Australian policy has therefore been informed by GSM and its corporate partners, with GSM’s influence reflected in the Department of Social Services’ website directing those seeking financial help to GSM products (DSS, 2018b). The FIAP saw banks, governments, superannuation funds, universities, women’s organizations and charities set targets for increasing financial inclusion.

Under the banner of financial inclusion, formal financial providers – notably two of the country’s four major banks, the National Bank of Australia (NAB) and Westpac – have partnered with microfinance organizations in seeking to increase their market share among the poor. The major banks’ move into the gap left by the departure of smaller payday lending providers helps explain microfinance’s growth in Australia. Partnerships between the formal banking sector and NGOs point to the increasing profitability of Australia’s ‘poverty industry’, as well as the corporate social responsibility benefits of the financial inclusion agenda and its trope of ‘democratizing credit’. The growth of the microfinance industry in the Global South was driven by its profitability, with risk-based pricing meaning that poorer citizens under different modes of pressure repaid debts at high rates of interest. This profitability was reflected in the large profits for shareholders in IPOs, as well as the sector’s ability to realize profits for investors, even through the 2007–8 crisis (Mader, 2015). In the case of the NAB, for example, an early pilot project found it could profitably lend small amounts (around $3,000 repaid over one year) to the poor, if interest rates were around 32 per cent (NAB, 2010, p. 4). This is a little higher than the global average microfinance rate of around 26 per cent.

**Case 1: Good Shepherd Microfinance**

GSM is based in Melbourne, Australia. In 2012 in partnership with NAB, GSM was formalized as a microfinance organization (GSM, 2018). GSM aims to provide ‘appropriate’ and ‘people centred financial services’ to the financially excluded (GSM, 2012b). It adopts a market segmentation approach, with each product having a ‘clearly defined target market’, designed to be used by clients with a particular income at a particular life stage (GSM, 2013a). GSM’s loan products consist of, in
ascending order of wealth of the potential client: a No Interest Loan (NILS) for an essential household item; the Adds-Up scheme, a matched savings programme; a StepUp small loan; and a Speckle small cash loan.

At the lower end of the scale, most NILS clients have incomes below the poverty line, with 92 per cent fully reliant on a government benefit. Three quarters are women, and a large percentage identify as Aboriginal or Torres Strait Islander (CSI and GSM, 2014, p. 41). GSM do not pay the loan out in cash, but in effect give the client a voucher to buy an item, often a white goods product. The justification for paying retailers directly for products is that it prevents poor clients from spending money ‘inappropriately’, like the BasicsCard. NAB administers the loan, with The Good Guys retailer supplying the product. The Adds-Up scheme targets a similar demographic, and is a matched savings programme for up to $500 for an essential household item or school accessories (GSM, 2013a). The StepUp Loan is aimed at the slightly better-off, with around half of its clients dependent on a government benefit (CSI and GSM, 2013). Around 30 per cent are single parents, a significant number receive disability benefits, and most have only one income per household. The StepUp loan is up to $3,000, but is not paid in cash to the client, instead going directly to a supplier. The loan is used to pay for ‘motor vehicle purchases and repairs, white goods, medical and health expenses, computers, and education’ (CSI and GSM, 2013). The interest rate is advertised at 5.99 per cent for a $2,500 loan over a term of two years, however there is no publicly available information on penalties for late payments. By 2013, over 6,800 loans were made at a value of around $19.5 million. Both StepUp and NILS make use of Centrelink’s automated payment system, Centrepay, which deducts payments for these loans directly from recipients’ accounts (GSM, 2015). The Australian government resources and administers Centrepay, taking an activist role in supporting microfinance’s growth, and subsidizing GSM.

Speckle is a higher-interest personal loan offered by GSM and NAB. It is aimed at the working poor, as a borrower must have an income and not be dependent on social security. The loan can be up to $2,000, with the effective interest rate over a year of repayments for a $2,000 loan being 57.8 per cent. If a customer does not repay, the default rate is $1 per day. Over 12 months this equates to 16.5 per cent interest on top of 57.8 per cent, with the total possible rate paid being 74.3 per cent. With a $200 loan paid over one year, the interest rate remains at 57.8 per cent, and if clients default on the loan (at the cost of $1 for every day it is overdue), they could be liable for 335 days of default fees. This means that with Speckle, a $200 principle can produce an interest rate of over 200 per cent.6

Scholars have criticized the use of market segmentation for credit products, despite its wide acceptance in the financial sector. Harrison et al. (2012, p. 19) highlight the correlation between the steady rise in consumer debt in the Global North since the 1980s and market segmentation. Banks
have increasingly targeted products according to age, gender, and marital status, while the use of data mining technologies that utilize the large datasets of customers’ transactions has allowed market segmentation to be done with significant precision, allowing banks to cheaply and easily target the ‘short-term high-interest bearing customer’ (Harrison et al., 2012, p. 44). This has enabled banks to directly market their products to potential clients who are already at the upper level of their credit limit, and thus considered to be in financial ‘need’. Because of this information, offers of credit appear to customers to come at just the right time (Harrison et al., 2012, p. 21).

This feature is central to the financial inclusion agenda. Financial inclusion is argued to also entail making products available during times of crisis, such as when leaving a violent relationship, or during unemployment or a medical or dental crisis (FIAP, GSM, EY, & CSI, 2016). Those facing financial hardship are defined as Australians from vulnerable communities – including culturally and linguistically diverse, indigenous, unemployed, and predominantly women victims of domestic violence – with these groups viewed as being prey to predatory lending (Digital Finance Analytics, 2016). In the language of financial inclusion lobby groups, they are thus in need of more ‘appropriate’ products, such as Speckle. However, if people facing financial hardship are encouraged to take out this loan, with possible interest rates and fees between 50 and 200 per cent, it is questionable to what extent financial inclusion through formal banking is ‘appropriate’. Indeed, given the rates of interest and the government’s workfarism approach inducing people to work – including vulnerable and marginalized populations – microfinance in Australia is better seen as an example of how privately created money is extended at very high interest rates to the surplus population, particularly women (Soederberg, 2014, p. 17).

It is important to note that GSM acknowledges in its annual financial reports that it is ‘dependent’ on the federal government to operate (GSM, 2013b, p. 13). The Australian state and federal governments have paid over $107 million to GSM from 2012 to 2017. GSM is also supported by its charity status that exempts it from payroll tax and tax on interest income (GSM, 2013a). GSM also receives significant support because client outreach is performed through a network of more than 600 organizations, such as domestic violence shelters, youth crisis centres, and churches. The staff or volunteers who market GSM products at such sites are not paid by GSM nor its corporate partners, providing a subsidy to both.

Corporations, through their partnerships with GSM, benefit from these subsidies. The NAB, for example, accrues revenues from GSM’s products. Moreover, with the targets of financial inclusion products often younger people (SPP and GSM, 2014), with many not having previously accessed financial products, the NAB also gains a foothold with new customers. The Good Guys, similarly, benefits from the sale of their goods that is facilitated by GSM’s products and associated subsidies.
GSM makes a number of claims regarding the benefits of its products, and financial inclusion more generally. However, these claims lack empirical evidence. The most ambitious of these is that at an individual level, ‘inclusive, effective and appropriate financial services (consumer microfinance)’ leads to poverty reduction (GSM, 2012a, p. 6). GSM focuses on the NILS programme in buttressing this claim, asserting that this scheme reduces poverty by increasing financial literacy, asset building, debt reduction and increased savings behaviour (CSI and GSM, 2014; GSM, 2012a). GSM claims that asset building – in this case, purchasing a household product – has a range of benefits, citing sources suggesting that ‘households with assets are more likely to have lower rates of teen pregnancy, fewer behavioural problems, better self-esteem and a greater sense of future orientation than children who are brought up in households without assets’ (CSI and GSM, 2014, p. 30). The referenced studies examine a matched savings programme for house mortgages in the US, the Individual Development Account (IDA). However, this programme has been criticized on the grounds that there is little peer reviewed literature demonstrating impact: ‘this literature alone is insufficient to recommend IDAs as effective for promoting the development of assets among low-income individuals’ (Richards & Thyer, 2011, p. 361).

GSM commissioned research to quantitatively model the economic benefits of NILS. This evaluation found ‘most’ economic benefits were to be had from the purchase of a fridge, which they quantified as $553 in the form of ‘asset building’; $401 through purchasing rather than renting a fridge; and $313 from stress reduction (CSI and GSM, 2014, p. 90). However, exactly how these figures are arrived at beyond ‘stakeholder engagement’ and a ‘literature review’ is not specified (CSI and GSM, 2014, p. 88). Like much research on microfinance, GSM instead relies heavily on individual positive narratives to sell loans. For example, the possession of a new fridge through NILS is credited with a mother’s children being returned to her custody:

Not long after she purchased her fridge Sharni got a call from the Department of Human Services to say her children were coming home. “Without the fridge I didn’t have a case to say ‘give me the kids back’, although physically and mentally I was ok, I didn’t have what I needed ... without NILS I wouldn’t be able to have my kids back. We wouldn’t be able to be a family.” (GSM, 2017)

Such accounts are highly selective. As argued by researchers measuring microfinance’s impacts using randomized controlled trials, anecdotes say very little about impacts on the average borrower or household wealth (Banerjee, Duflo, Glennester, & Kinnan, 2013). People’s experiences with financial and emotional distress in meeting repayments, or the 30 per cent of defaulting StepUp clients who deal with third party debt collectors are typically not advertised (Deloitte Access Economics, 2017). For example, a recent PhD thesis on NILS reported that clients avoided taking on more consumer
debt, including NILS, because of past ‘negative experiences’ such as high interest rates and the long time it took to pay off on a low income (Iu, 2015, p. 186, 198). Sampling for these studies is also skewed towards positive stories. For instance, the above-mentioned quantitative evaluation did not use a robust sampling method, as ‘NILS providers were required to recruit their own recipients to the study’ (CSI and GSM, 2014, p. 28). Even within this quite selective sample, the study still found that NILS did not improve clients’ ‘financial capacities’, defined as an ability to afford (financial) goods (CSI and GSM, 2014, pp. 31–2). Moreover, 7 per cent of clients reported ‘improved financial inclusion’ while 76 per cent reported no change and 17 per cent reported ‘worsened financial inclusion’ (CSI and GSM, 2014, p. 61). Similarly, the PhD thesis on NILS was based only on those clients who had repaid the loan, positively skewing the findings (Iu, 2015, p. 145).

A further concern with GSM’s studies of microfinance is the assumptions that underpin analysis. A quantitative study by GSM and the business consulting firm, Strategic Project Partners (SPP), titled ‘Microfinance, Inclusion and Economic Growth’, argues that financial inclusion could increase household wealth by $50 billion, increasing GDP by $19.7 billion a year and saving the government $2.6 billion a year (SPP and GSM, 2014, p. 5). These figures are frequently cited, including by GSM CEO Adam Mooney (GSM and FIAP, 2017), ANZ bank (ANZ, 2017), and the Queensland government in its Financial Inclusion Plan (Government of Queensland, 2016). These GDP growth figures are based on the assumption that financial inclusion gives people substantially more wealth, as opposed to analyzing this relationship. The authors assume that 7 per cent of the poorest three million Australians suddenly earn, not $200 to $400 a week, but over $1,000 dollars a week, to model the outcomes of ‘moving a considerable number of people (the excluded) up to the same position on the wealth spectrum as the included’ (SPP and GSM, 2014, p. 12). The authors note: ‘We use financial inclusion as an indicator i.e. if a household moves up the financial inclusion continuum to a higher placed segment, we assume that their improved financial circumstances have allowed them to do so’ (SPP and GSM, 2014, p. 12). The logic underpinning this analysis is that the more financial products one buys, the further up the wealth hierarchy one travels, until eventually one reaches financial products like family trusts, shares/bonds, and estate planning. The authors admit that ‘financial inclusion is an output rather than an input’ and yet most of the report assumes that including individuals financially, through consumer credit, will increase their wealth. The authors note that the modelling relies on a ‘large number of assumptions’ and indeed, ‘should not be taken as accurate’ (SPP and GSM, 2014, p. 17). However, despite the problems in the evaluation’s design and the authors’ admissions of its limitations, its figures on the benefits of microfinance are still widely quoted, playing a central role in GSM’s lobbying.
Case 2: Many Rivers Microfinance

The second, briefer, case study examined here is Many Rivers Microfinance (MRM). It highlights some of the controversies attached to the growth of the Australian microfinance industry. MRM was officially founded in 2011, in partnership with Westpac. It is a Christian-inspired microfinance organization (MRM, 2017, p. 7), and is based on an existing network started by the Australian microfinance group, Opportunity International, founded in 1971. Founding CEO of MRM and current board member, Leigh Coleman, is associated with the evangelical Christian group, Hillsong Church, with board member, Terry Winters, also a former member of the conservative Australian Christian Lobby (Taylor, 2016).

MRM offers loans of $5,000–$10,000, also aimed at poorer members of the community and focusing on indigenous Australians (MRM, 2017, p. 7). MRM offers a more traditional form of microfinance than GSM, with loans intended for entrepreneurs who will use funding to start a business. Most people using MRM’s products receive government benefits (Deloitte Access Economics, 2017). The interest rate is at a ‘subsidised interest rate’ compared to other loans in the same risk category (MRM, 2018), however the annual percentage rate of their product is not available through their website or publicly available reports. MRM clients have a rate of business failure and default of 47 per cent after 3 years, which is comparable to Australian averages, while third party debt collectors are used to enforce non-payment in 30 per cent of defaulting clients (Deloitte Access Economics, 2017, p. 19, p. 21).

Since 2011 the Australian government has provided $10 million dollars of funding to MRM, while philanthropic foundations and the private sector – notably mining and resource companies BHP Billiton, RioTinto Iron Ore, and Chevron – have contributed approximately $20 million. These subsidies contribute towards paying out MRM’s corporate partner, Westpac, in cases of defaulting loans. As a MRM company witness before a senate enquiry put it: ‘government funding is subordinated and in that sense still provides that first loss protection for other investors in terms of capital’ (Commonwealth of Australia, 2011, p. 60). In other words, when people borrowing from MRM fail to repay, government (and philanthropic and corporate) subsidies covers Westpac’s losses. Partnering with MRM, therefore, reduces Westpac’s risk exposure. Government, philanthropic and corporate subsidies have also contributed to paying MRM’s overheads. In 2011, an investigation was launched by the NSW Office of Liquor, Gaming and Racing, prompted by media reports that from 2007 to 2010 MRM delivered only 74 loans worth $330,000 while paying its field staff over $200,000 each (Burton-Bradley, 2011). Likewise, a previous microfinance organization named Hillsong Emerge that was founded by MRM Founding CEO Leigh Coleman had its federal government

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funding discontinued after it had failed to provide many loans to indigenous clients despite receiving government funding (Higgins, 2006).

Conclusion

This article has sought to explain why the microfinance industry remains robust globally, despite acknowledgement of its widespread failure as a poverty reduction tool. It has considered this question by examining how and why the sector has emerged in Australia, with high levels of waged labour, social security, and formal credit.

The article analyzed reforms to the Australian social security system since the 1990s, highlighting the trends of reduced accessibility, increased activity tests, and strengthened sanctioning regimes, alongside stagnating payments and incomes and increased household debt. Analyzing the political economy of the microfinance industry in Australia through two cases, the article documented how the sector’s growth has been achieved through the advocacy of microfinance interest groups and their corporate partners, who have been motivated by microfinance’s profitability and sought to increase their market share among the poor. These coalitions lobbied the government to support the sector’s growth, developing and disseminating problematic studies that seek to demonstrate microfinance’s benefits.

These coalitions have benefitted from government subsidies and a favourable regulatory environment installed under the banner of financial inclusion. However, it is questionable whether the products offered are indeed ‘appropriate’ and provide a safe and affordable alternative to payday lending, in light of interest rates and fees that outstrip global sector averages, as well as the sector’s precise targeting of vulnerable clients. Importantly, government support for microfinance displaces resources from other forms of social security, despite the lack of robust evidence demonstrating its benefits to the poor. Like the experience of the Global South, the Australian microfinance industry consequently furthers the disciplining and reproduction of the surplus population, while mediating but not ameliorating the tensions of the debtfare state.

Notes

1. Insurance and savings are generally considered to be part of microfinance and financial inclusion, but these products are less widespread.
2. The Australian government’s rhetoric on ‘mutual obligation’ promotes recipients’ obligations while sidelining others’ – notably those of government and businesses – as well as recipients’ existing mutuality in paying at minimum, consumption tax (Henman, 2002, p. 81).

3. The Northern Territory Emergency Response was a suite of reforms, including to social security and law enforcement, rolled out across indigenous communities in the Northern Territory by the Howard Coalition government in response to reports of child abuse and neglect. New Income Management was intended to address the Northern Territory Emergency Response legislation requiring the restriction of the Racial Discrimination Act and Northern Territory anti-discrimination legislation; nonetheless, the vast majority of those included were indigenous (Taylor et al., 2016, p. 15).

4. This mode of conditionality was then introduced outside of the Northern Territory with the cashless debit card, trialled in communities across the country from February 2016 to June 2017 and extended in all existing sites until 30 June 2019 (DSS 2018a).

5. This reflected Australian households’ increased ability to borrow, due to financial liberalization and lower nominal interest rates; increased demand, due to population growth; and constrained supply, due to a combination of zoning issues, geography and inadequate transport (see Lowe, 2017).

6. This was calculated using the Speckle online calculator https://www.speckle.com.au/


8. The authors are not named on the report but a media release by GSM notes the former ANZ bank chief Saul Eslake supervised the modelling (GSM and FIAP, 2017).


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