EURASIAN GEOGRAPHY AND ECONOMICS
https://doi.org/10.1080/15387216.2021.1980074

Financial citizenship and shadow banking in Pakistan: a study of two deposit-taking microfinance banks

Juvaria Jafri

Judge Business School, University of Cambridge, Cambridge, UK

ABSTRACT

I apply a financial citizenship lens to the Pakistani banking sector to consider how inclusive finance resolves the issue of uneven financial access. For this, I draw attention to how inclusive finance is a form of shadow banking. The case of Pakistan shows that policies of inclusive finance create a heterogeneous formal financial space. Institutionalized forms of inclusive finance result in a banking system that offers uneven access to finance because it contains separate parts for different clients. Such a system is defined by mainstream commercial banks based on a traditional bank intermediation model on the one hand, and inclusive finance based on a disintermediated, or shadow banking model, on the other. My study uses the example of two deposit-taking microfinance banks to show how contemporary financial systems in the Global South tend to contain an "outside" as well as an "inside". As such, I draw attention to how shadow banks shape inclusive finance and limit financial citizenship, causing uneven access to finance, characterized by inequities in (1) rates, (2) requirements, and (3) surveillance. These inequities complicate and limit financial citizenship in spaces where shadow banking subsumes inclusive finance.

ARTICLE HISTORY
Received 15 April 2020
Accepted 9 September 2021

KEYWORDS
Development; financial inclusion; financial citizenship; financialization; inclusive finance; Pakistan; shadow banking

Introduction

Among Pakistani deposit-taking banks there are two models of banking. The dominant model is that of commercial banks with total deposits, in the year 2018, of PKR 14,631 billion (SBP 2021). The other model is that of deposit-taking microfinance banks or MFBs with total deposits, in the same year, of PKR 266 billion (PMN 2019). The onus of overcoming the problem of financial exclusion, which affects 100 million individuals or about half the country's population (Global Findex Database 2017), has been placed by the Pakistani government on deposit-taking MFBs and not on mainstream commercial banks (NFIS 2015). The parallel existence of two types of institution – superficially similar but in actuality very different – is an arrangement in which the poor, relative to their non-poor counterparts, cannot gain full financial access, despite

CONTACT Juvaria Jafri j.jafri@jbs.cam.ac.uk Judge Business School, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, UK

being included in the formal financial system. I describe this separation as an issue of financial citizenship. The uneven nature of financial access in Pakistan has resulted in a set of inequities: (1) in rates and pricing, (2) in requirements and eligibility, and (3) in surveillance and privacy.

A system which offers uneven access to finance comes across as a corollary of a large population of poor people. But the separation of mainstream and inclusive finance is perpetuated by the role of shadow banking in inclusive finance. The argument that inclusive finance is a form of shadow banking, is pivotal to this contention which I explain in two stages; (1) by drawing on existing literature on both, mainstream banking in the Global South, and on the role of market-based finance in development interventions, including inclusive finance; and (2) through the examples of two large Pakistani microfinance banks, which are closely regulated by the state and licensed to take deposits from individuals and institutions.

My focus is on two specific institutions and relies heavily on content from their annual financial reports; I also draw on fieldwork carried out over several months in Pakistan. This includes 19 semi-structured interviews with professionals working in inclusive finance and allied areas, including in the central bank, commercial banking, development agencies, fintech, and social enterprise, as well as the analysis of official documents including policy and regulatory reports, and audited financial statements.

My contribution is to two sets of scholarship. The first of these is the economic geography literature on the spatial aspects of financialization; through an empirical study of how shadow banking operates outside of major financial centers. The second contribution is to the literature on the international political economy of the Global South, particularly on the power relations that shape uneven access to finance.

The remainder of this paper is organized as follows: Section 2 discusses how the literature on financial citizenship can be augmented and given a Global South context by drawing linkages with shadow banking concepts. Section 3 considers how inclusive finance, as a formal aspect of the banking system, institutionalizes uneven access to finance. Section 4 builds on this by showing how inclusive finance in Pakistan relies on a disintermediated model of banking. Section 5 presents a case study on inclusive finance in Pakistan with an analysis of the inception and activities of two large deposit taking microfinance banks. Section 6 discusses and concludes by appraising the inequities that arise when inclusive finance is distinct from mainstream finance in terms of approaches and clientele.

Shadow banking and financial citizenship

Conceptually, shadow banking and financial citizenship are features of a wide research agenda on the phenomenon described as financialization. This literature interrogates the nature, causes, and effects of the growing power of financial institutions, markets, logics in economic, political, and social life (e.g. Epstein 2015; Pike and Pollard 2010). Economic geographers have noted how processes of financialization complicate access to the financial system for individuals and households. Shadow banking practices and networks are central to this problem, as they are responsible for impeding access to services and products including loans, deposits, and payments.

This problem of access is captured in the notion of financial citizenship, which entered the economic geography scholarship in the 1990s, through the seminal article by Andrew Leyshon and Nigel Thrift. This conceptualization captured a growing sense that financial systems have inbuilt tendencies to be exclusionary, as revealed in shifting banking models that caused banks to close large numbers of branches, limiting financial access for many communities across the United Kingdom, and United States (Leyshon and Thrift 1995). They argued that those who can access finance only in the form of, for instance, high-cost loans and not through mainstream banking institutions are relegated to the "outside" of the financial system and are hence not financial citizens. The processes that underlie this relegation include the tendency of mainstream banks to cross-sell products within groups, privileging "blue-chip" clients by offering them subsidies in exchange for brand-loyalty (Dymski 2005). Less wealthy clients inevitably pay more for the same products and services than their more affluent counterparts. In the Global South, when inclusive finance is presented as a remedy to financial exclusion or to the circumstance of being "unbanked" or "underserved", issues of financial citizenship arise because the exclusionary practices that obstruct financial citizenship are embedded in the financial landscapes of poor countries.

To understand why, it is necessary to consider a basic question: why are poor people offered financial inclusion products? One answer is that the poor have unique financial needs and require financial institutions and instruments tailored for their particular conditions. This explanation sees poverty as the driver of demand for inclusive finance, but engages only superficially with the question of why mainstream financial institutions don't accommodate the poor.

The alternative explanation, given a shadow banking lens, is that the demand for inclusive finance drives processes similar to those that underlie predatory lending in the Anglosphere (Leyshon and Thrift 1995). These reveal how financial systems have inbuilt tendencies to be exclusionary (Dymski and Veitch 1992). These practices are attributed to shifting models of banking: disintermediation means that lending and borrowing activities are no longer closely linked. Previously, the dominant model was one in which banks relied on depositors to provide funds that could be loaned to borrowers, but newer approaches to banking focus on the "slicing and dicing" of loans (Chick and Dow 1988). These have pushed a departure from the branch-oriented approach to banking and allowed banks to overcome geographical constraints.

These shifts reflect shadow banking networks and practices based on disintermediated models of banking. In disintermediated models, deposits are not required for loans, and in the recent literature on endogenous money (e.g. Jakab and Kumhof 2015) the intermediation model is no longer a core part of the banking system in many advanced capitalist economies. But owing to asymmetries in the endogeneity of money, intermediation models – in which banks must actively manage deposits – retain relevance for developing capitalist economies (e.g Karwowski 2018).

Disintermediated transactions involve: (1) parties with excess funds, instead of traditional depositors, and (2) parties seeking funds, instead of traditional lenders. Parties with excess funds are likely to deploy these funds in investment or speculative assets instead of deposits; these opportunities for investment and speculation are made possible by those who seek funds; for instance, subprime borrowers. These transactions don't require a bank as an intermediary: hence the term disintermediation. In poor countries disintermediation has occurred in the inclusive finance segment, mostly because of the ready availability of finance from private sources and the "philanthropy-finance-development complex" (Gabor and Brooks 2017). This arrangement is a manifestation of shadow banking in the Global South and an extension of shadow banking in the Global North.

Shadow banking refers to credit intermediation activities carried out by entities outside of the regular banking system. Commonly associated with the global financial crisis of the last decade, the institutions and practices of shadow banking wield immense influence over the shape of inclusive finance in the Global South. By some conservative definitions and calculations, global shadow banking assets amount to over USD 50 bn relative to USD 150 bn in assets held by traditional banks (Fitch Ratings 2019).[1] The two key mechanisms that drive shadow banking in rich countries are the same as those in poor countries: regulatory avoidance and arbitrage, and the demand for yield from institutional investors (Nesvetailova 2017; Singh and Pozsar 2011).

Regulatory arbitrage and avoidance were among the earliest explanations for the rise of the shadow banking industry: Pozsar (2008) and Adrian and Shin (2009) note that regulatory burdens create gaps in traditional banking that are filled by shadow banks. This view of shadow banking is sometimes described as the supply side explanation in which the focal point is the behavior of financial institutions in response to regulatory and legal constraints. In many countries of the Global South, financial institutions face an even more expansive set of constraints which create the space in which inclusive finance operates formally. For instance, the capital adequacy and leverage limitations imposed by the Basel Accords, and the know-your-customer (KYC) requirements of the Financial Action Task Force (FATF) to counter money-laundering and terrorist funding (de Koker 2014). These constraints make it difficult for enterprises and individuals lacking extensive documentation to obtain credit and at times, even a traditional bank account.

The second explanation for the growth of shadow banking is the demand side view, in which the focus is on institutional investments in wholesale funding instead of deposits. A key role of shadow banks in the global financial crises was to create "safe, short-term, liquid instruments to cater to the safety preferences of institutional cash investors and a deficit of US Treasury bills in general" (Singh and Pozsar 2011). These practices have carried over to the Global South and are a component of the inclusive finance industry, for instance, in the form of microfinance investment funds and the involvement of global banks in impact investing and social ventures (Table 1). This form of shadow banking is also known as "market-based finance" and many scholars of international development have expressed deep concern over the increasingly commercial and privatized nature of developmental strategies (Gabor 2018). Funds from global investors help meet the borrowing needs of the poor, but the practices of specific lending institutions for the poor reproduce inequalities. As a result, the poor always pay more, not only for their loans but also for other services, such as remittances and payments.

Table 1. Who owns and funds inclusive finance? A typology of debt and equity funders. Created by author based on CFI (2021).

	Subtypes	Description	Examples
Development Finance Institution/ International Financial Institution	Bilateral and multilateral institutions	Owned by one or more governments to meet development objectives through private capital.	KfW (Germany), CDC Group (United Kingdom), PROPARCO (France), IFC (International Finance Corporation), ADB (Asian Development Bank)
Government	Development programme, government agency	Government, or government agency or department, including programmes with development objectives, as well as central banks	Prime Minister's Interest Free Loans Scheme (Pakistan), funding from the Luxembourg Ministry of Finance,
Financial Institution	Commercial and publicly owned banks	Bank or other regulated financial institution where governments or private entities are majority shareholders	United Bank Limited, HBL
	Microfinance Investment Intermediary (MII)	Independent investment entities open to multiple investors and engaged fully or mostly with funding and/ or providing technical assistance to microfinance institutions.	FINCA, AKAM, Triple Jump, Acumen, ResponsAbility, Triodos
Other	Private Corporations, individuals, foundations, NGOs	Legal entities except government and financial institutions. Often tech companies seeking synergies.	VEON, Bill & Melinda Gates Foundation, Aga Khan Foundation, National Rural Support Programme

Institutionalizing unevenness in Pakistan

Uneven access to finance became an institutionalized feature of Pakistani banking when policymakers, including the central bank, adopted microfinance as a strategy to meet credit constraints and also reduce poverty. This consensus resulted in a separate prudential framework to regulate microfinance banks when the Khushhali Bank Ordinance, a parliamentary act was passed in 2000. Pakistan's first microfinance bank, Khushhali Bank was thus established – as an extension of liberal financial reforms – in August 2000 as a deposit-taking institution regulated by the State Bank of Pakistan. Khushhali Bank was jointly owned by 16 commercial banks, most of which were state-owned; it also received financial support from the Asian Development Bank's Microfinance Sector Development Program and became the centerpiece of a national poverty reduction strategy. Khushhali Bank enjoyed a quasi-public status until 2012 when a consortium of local and foreign private investors acquired the pioneering institution.

Private acquisition is a core theme in the story of inclusive finance in Pakistan. The shareholder patterns of Pakistani microfinance banks show that of the eleven deposit-taking institutions in this sector, only one of these entities – which operates regionally and is newly formed by a provincial government – is not owned by a financial institution. As shown in (Table 2), the 2012–16 period was a particularly busy one for Pakistani microfinance in terms of mergers and activities: this is largely the outcome of the State Bank of Pakistan's regulatory strategy of steadily – and annually – increasing minimum capital requirements from 2001 onwards. The overwhelmingly privatized, commercially oriented nature of microfinance in the country is reflected in Tables 1 and 2. This has replaced – in Pakistan as well as elsewhere (see Mader 2015) – a subsidized, altruistic model. The case for commercial microfinance has attracted a consensus from international development practitioners and donors, as well as financial institutions (Copestake 2007).

The eleven commercially driven microfinance banks or MFBs are responsible for over two thirds of the total gross loan portfolio of inclusive finance.[2] As shown in (Table 2), these banks have attracted large amounts of financial capital, primarily in the form of equity shareholding from global – but also domestic – institutional investors. Patterns of ownership play an important role in shaping the activities of MFBs; these have implications for financial citizenship as they drive uneven access to finance.

Table 2. Ownership and M&A patterns in MFBs. Source: Annual reports and company websites.

MFB and Year of Inception	Origins	Transitions and Stakeholders (as of 2017)
Khushhali Bank 2000	Component of ADB backed Microfinance Sector Development Program (MSDP) and also state backed poverty reduction strategy. Owned initially by 16 Pakistani commercial banks, mostly state-owned.	Acquired by a consortium of national and international investors in 2012, thus ending its quasi-public status. UnitedBank Limited 29.7%, Incofin Investment Management 24.4%, Equator LLC 14.3%, Triple Jump B.V 9.9%, ResponsAbility S.A 19.9%, Bank AlHabib Ltd. 1.8%
First MicroFinance Bank 2002	Created through a structured transformation of the credit and savings section of the Aga Khan Rural Support Programme's (AKRSP), an integrated development programme operating since the 1980s in Northern Pakistan.	51% stake acquired by nationwide bank, HBL, in 2016. Both companies have been owned by the AKFED since HBL was privatized in 2004. FMFB is now a subsidiary of HBL which is owned by the AKFED (51%), CDC (5%), IFC (3%) as well as other institutions and individuals. HBL (50.5%), AKAM (21%), AKFED (11%), IFC (8.5%), JICA (8.5%).
U MicrofinanceBank 2003 (Telecom owned[a])	Founded as Rozgar Microfinance Bank and granted banking license in 2005.	Becomes U Microfinance Bank after acquisition by PTCL in 2012 and also transitions from operating at district level to nationwide. Shareholders include the Pakistan Telecommunication Company Limited which is owned by the Government of Pakistan (62%), UAE owned Etisalat (26%), and the public.
Telenor Microfinance Bank 2005 (Telecom owned)	Commenced operations in 2005 as Tameer Microfinance Bank. Partnered with Telenor Pakistan to jointly launch Easypaisa: Telenor was incorporated into Tameer's equity structure in 2008.	Became Telenor Microfinance Bank in 2012 after being acquired by Telenor Pakistan a subsidiary of Telenor Group which eventually raised its stake to 100% by buying out minority shareholders including the IFC. In 2018 Telenor sold a 45% stake of TMB to Ant Financial: a tech affiliate company of the Chinese Alibaba Group.
Apna Microfinance Bank 2005	Backed by Network Leasing Co which has an established micro leasing program since 1995.	Ownership structure changes after Network Leasing Co. Merger with KASB Bank. KASB Bank was acquired in 2015 by Bank Islami. In 2012 a Group of Investors (GOI) acquired a 91% stake from various shareholders: now owned by various individuals and associated companies of the United International Group.
Pak Oman 2006	Sponsored jointly by the Sultanate of Oman with 67% shareholding and the Pak Oman Investment company with 33% shareholding.	Lanka ORIX Leasing Company, Sri Lanka's second largest non-banking financial institution by asset size, acquires a 50.1% equity stake in 2017. Pak Oman Investment Company (16.7%), Sultanate of Oman (33.3%), Lanka ORIX Leasing Co. (50.5%).
FINCA Microfinance Bank 2008	Incorporated as a majority owned subsidiary of Kashf Holdings Private Limited after the Kashf Foundation spun off its high-end, individual loan portfolio to establish the bank.	In 2013 FINCA International, a global microfinance network, acquires majority shareholding in Kashf Microfinance Bank Limited. 86% stake owned by FINCA International. Other shareholders include Kashf Holdings, IFC, Triodos Bank, and Acumen Fund.
Advans 2012	Created in 2012 as Advans group's sixth greenfield project.	Owned by Luxembourg based Advans (70%) and Netherlands (30%) based FMO.

(*Continued*)

Table 2. (Continued).

MFB and Year of Inception	Origins	Transitions and Stakeholders (as of 2017)
Mobilink Microfinance Bank Limited 2012 (Telecom owned)	A subsidiary of Global Telecom Holding S.A.E	Re-branded to Mobilink Microfinance Bank Limited in May 2016 Owned fully by Russian-backed, Amsterdam-headquartered VEON
Sindh Microfinance Bank 2015	Wholly owned subsidiary of Sindh Bank, which is owned by the provincial government.	100% shareholding by Government of Sindh through provincial finance department.
NRSP Microfinance Bank 2011	Created through a spin off the mega NGO, NRSP's microfinance operations.	NRSP is the major shareholder with minority shareholding from IFC 16%, KfW 16%, and the Acumen Fund 16%

Inclusive finance as disintermediation

The term "shadow banking" is used as shorthand for the practice of disintermediation in the financial system. Disintermediation is a key feature of Pakistani inclusive finance, which relies on wholesale funding rather than deposits. The shadow banking aspect of inclusive finance has two contexts: shadow banking practices, and shadow banking networks.

Disintermediation is a vital feature of commercialized models of microfinance banks and an outcome of the shifts in microfinance as a development strategy. For Pakistani microfinance these shifts encompass a push to eschew models centered on subsidized funds; instead, the emphasis has been on diversified sources of funding, which enhance "sustainability" (SBP 2006).

A broader, industry-wide, global engrossment with sustainability is reflected in the CGAP Microfinance Consensus Guidelines (CGAP 2003).[3] The 2007–9 global financial crisis amplified concerns about the adverse effects of reduced liquidity on the cost and availability of funding for microfinance (Littlefield and Kneiding 2009). Aside from grants and guarantees, funding for microfinance may come from one or more of three sources: (1) debt with borrowings either from larger banks and investors or through the issuance of bonds, (2) from deposits, which are described as savings products from customers, and (3) from equity investments or ownership stakes, for a share of profits.

Constraints to growth in Pakistan microfinance are regularly framed as funding constraints. The Microfinance Growth Strategy 2020 – from think tank, PMN – forecasts sector requirements of additional equity, debt and deposits of up to USD 3 billion to target 10 million borrowers (PMN 2015). This gap necessitates equity injections from local and foreign sources, as donors are increasingly averse to subsidized funding models. This demand for equity is often portrayed as a growth opportunity for investment and development assistance. As shown below (Tables 1 and 2), this has inspired a holding company model.

The alternative approach to equity injection is aggressive deposit mobilization. This shapes contemporary inclusive finance in two ways that promote a disintermediated banking model: (1) it raises the costs of funds as depositors are attracted by high rates of returns, and (2) it uses institutional deposits as wholesale funding.

The shadow banking practices advanced by disintermediation are thus those that distinguish microfinance banks from mainstream banks and make inclusive finance a viable business model for financial institutions, but an unequal form of financial access for the poor.

Case study: telenor microfinance bank and first microfinance bank

The behavior of deposit-taking microfinance banks reflects the shadow banking networks and practices mentioned above. Inclusive finance in Pakistan is closely regulated by the central bank and driven by a government-led financial inclusion agenda. Deposit-taking microfinance banks have a crucial role in this initiative: the state-led National Financial Inclusion Strategy emphasizes this (NFIS 2015). Also, deposit-taking microfinance banks have a heavy share, of nearly 70%, in the gross loan portfolio of the overall microfinance sector (PMN 2016), which includes commercial, noncommercial, and nonprofit organizations. The dominance of this bank led form of microfinance and its immersion in the broader financial sector, drives inequities in pricing and rates, inequities in requirements and eligibility, and inequities in surveillance. This has been facilitated by the microfinance proclivity to receive blended finance from public, private, and philanthropic sources. Additionally, tight but dynamic regulation has made inclusive finance institutions the target of mergers and acquisitions involving global investment firms and development finance institutions.

Two of the largest microfinance banks, FMFB and TMB, exemplify how the commercialization of microfinance has shaped financial inclusion, and driven uneven financial access in Pakistan. The obvious contrasts between FMFB and TMB are thus: the former was launched through a faith-based philanthropic organization, whereas the latter was started by a group of bankers as a privately-owned business. FMFB as a forerunner, provided the blueprint for a small, rural-focused lender to transform into a nationwide banking organization spurred by global financial networks. Despite this, it manages to retain the image of a poverty-focused initiative, resistant to decision-making on the basis on profit alone (Zulfiqar 2013). On the other hand, TMB, a privately-owned profit-oriented American subprime-inspired initiative, despite very different origins, came to be in close and direct competition with this institution. The similarity of the services offered by TMB and FMFB highlight the disciplining effects of global finance.

Microfinance through blended finance: a short history of FMFB

The story of FMFB's origins and outlook reflect the strategies of its parent organization, the Aga Khan Development Network (AKDN), a global network of development agencies focused on Asia and Africa. Two of these agencies, the Aga Khan Agency for Microfinance (AKAM), and Aga Khan Fund for Economic Development (AKFED), have been involved in Pakistan's financial sector even before the liberal reforms of the 1990s. Since 2016 FMFB has been owned by Pakistani banking giant HBL; so, both HBL and FMFB are subsidiaries, directly and indirectly, respectively, of the AKDN. The activities of the AKDN, its various agencies, and its funding organization, the Aga Khan Foundation, are well known across much of the Global South, given that the organization supports and conducts research, education, cultural programs, and welfare and humanitarian aid projects in 30 countries (AKDN 2019).

The specific initiative behind the birth of FMFB is the Aga Khan Rural Support Programme (AKRSP) which implemented microfinance as a development strategy in Northern Pakistan in 1982, using a savings-oriented village organization model. By 2000 more than USD 10 million had been saved by members and over USD 2 million disbursed in credit each year (Khan 2010). The AKRSP was transformed when central bank's Microfinance Ordinance of 2001 allowed for the First MicroFinanceBank Ltd. of Pakistan to commence operations in May 2002. This new financial institution absorbed the AKRSP's credit and savings portfolio and launched a program of urban microcredit in various cities, growing to a nationwide 25 branch network within a few years. The International Finance Corporation acquired a 24% shareholding stake in 2002 (The First MicrofinanceBank Ltd 2003).

The AKRSP-FMFB transition might come across as a classic instance of commercial motives taking precedence over social ones. However, a more nuanced depiction of this transformation would link it to the Aga Khan Agency for Microfinance (AKAM). Launched in 2005 in Geneva, Switzerland as a global nonprofit foundation, AKAM was tasked with formalizing and developing the microfinance portfolios of its parent company, the AKDN (AKDN, 2019).

The AKDN shift in approach reflects the assumption that microfinance is different from other poverty reduction interventions; that finance is a distinct approach to development. Khan (2010), corroborates this and partially attributes the formation of FMFB to the sentiment that leaving commercial lending to a separate entity – a private financial institution – would enable the AKRSP to resume focusing on rural development. Hussein and Plateau (2006,342) report that between 1995 and 2000, the AKRSP raised the number of field officers responsible for loan auditing and performance evaluation from six to thirty-one: an indication of how cumbersome lending practices had become for the NGO.

Additionally, as noted by Khan (2010) there was growing discontent among members of village organizations about the loss of savings – under the AKRSP's joint liability structure – because of defaulting co-members.

Through the support of AKDN, FMFB established itself as a bellwether for the nascent industry. Less than a year after inception, FMFB began implementing technological solutions – guided by IFC sponsored external consultants – to manage loans and deposits (The First MicrofinanceBank Ltd 2003). Other first-year achievements included a funds transfer program for remittances (The First MicrofinanceBank Ltd 2003).[4] Particularly noteworthy is the drastic variation of the AKRSP approach used by FMFB: inviting urban borrowers, who already had geographical proximity to mainstream bank branches, into the microfinance net. This became the strategy for many subsequent entrants to the industry including TMB.

The appeal of sub-prime Pakistan: a short history of TMB

The birth story of TMB contains less altruism. Five bankers – former colleagues at various Citigroup global offices – partnered to launch Tameer Microfinance Bank in 2005. The explicit intent was to meet the financial needs of the economically active urban poor in Pakistan: the commercially viable strata of the financially excluded. The initial investment was USD 10 million, of which USD 6 million came from one of the founders, Nadeem Hussain, Tameer's first CEO: the IFC also invested USD 1 million in Tameer (Husain 2016).

Tameer's approach to microfinance was inventive and audacious. For instance, it was the first microfinance bank in Pakistan to offer real-time online banking at branches, open 24-hour service branches, and use capital markets to fund the microfinance bank (McCarty and Bjaerum 2013) Initially, Tameer's strategy was to replicate the American subprime model and to target urban women borrowers using a cash-flow oriented, low collateral model based on a system of neighborhood checks: this approach proved troublesome, particularly in the megacity of Karachi where weak law enforcement and coercive behavior from ethnic political activists caused loan officers to engage in a number of questionable practices including "ghost loans" and "Ponzi schemes". This is corroborated by Zulfiqar's (2013, 109) fieldwork: she notes that Tameer's reliance on local community "agents" curtailed outreach because of defaults and operational losses, with lost ground salvaged only after the Norwegian telecom giant, Telenor acquired a majority stake of 51% in 2008. In 2016, this was increased to 100% and the bank changed its name from Tameer Microfinance Bank to Telenor Microfinance Bank.

Though TMB under Telenor retained some of their more innovative approaches to inclusive finance, including through controversial products, such as gold-collateralized loans, more recent initiatives have tended to emphasize fintech, particularly given the success of Easypaisa. This flagship product became Tameer's gateway into fintech and eventually motivated TMB's third round of M&A in early 2018. This time Telenor was the seller, and not the buyer, and China's Ant Financial – the fintech arm of e-commerce conglomerate Alibaba – purchased a 45% stake in a transaction announced as a "strategic partnership" (Financial Times, 13 March 2018) targeted at capturing value created in digital footprints, particularly of the poor.

Loans, and loanable deposits

Expensive loans and the tendency of loan agreements to require collateral reproduces inequalities associated with poverty. MFBs offer loans that, generally in annual percentage rates terms, range from 20% to 30%; for mainstream commercial banks the corresponding figure is drastically lower, ranging from 7% to 22% (Table 3).[5]

Lending and deposit-taking strategies for microfinance are influenced by funding arrangements, either from deposits, debt, or equity. Additionally, lending and payment and remittance services are increasingly shaped by fintech – which often exerts its influence through ownership structures – replicating vulnerabilities as poorer clients are required to often insidiously forfeit their privacy to obtain loans. The respective experiences of FMFB and TMB reflect the homogenizing effects of financialization.

FMFB has been able to take a relatively passive stance in seeking financing. This may be attributed to its ownership structure as part of the largest non-public financial institution, which is in turn owned by a global philanthropic foundation. This passive approach is evident in all three areas related to financing: (1) deposit mobilization, (2) debt issuance, and (3) seeking equity partners. In contrast, TMB's approach has been aggressive in all of these areas: this is evidenced in their (1) push for deposits by offering high rates, (2) use of capital markets for debt finance, and in (3) active pursuit of high-profile partnerships with global telecom and fintech companies.

Gold collateral as financial innovation

Surges in deposit base and in the number of depositors are a recent occurrence. The context for these is the easing of collateral rules by the central bank. In 2012 the SBP amended the Prudential Regulations for Microfinance and allowed

Table 3. Lending and deposit rate ranges (based on weighted averages). Based on KPMG (2017), PMN (2017) and various microfinance company websites.

	Microfinance Banks	Commercial Banks
Lending rates	20% –30% (APR)	7% to 22% (APR)
Deposit rates	Up to 13% per annum	Up to 7.27% per annum

MFBs to accept gold jewelry as security for loans. This was an extension of new rules that permitted collateralized lending (SBP 2015). Previously, all microfinance loans were unsecured. These new rules responded to two realities; one, that Capital Adequacy requirements (CAR) – based on Basel II – were limiting the growth of MFBs (Aslam and Azmat 2012); and two, in many parts of South Asia, the accumulation of gold is a traditional and preferred form of saving (Chen and Rasmussen 2011).

Collateral, in both the formal and informal market context, serves a dual function; it protects the lender against risk by allowing for either partial or complete recovery in case of default; and it serves to vet prospective clients by linking risk to readiness to repay. Thus, for economists, collateral overcomes information asymmetry.[6] The International Labor Organization defines collateral similarly: " … an asset pledged to a lender, until the loan is paid back. In case of default the lender has the right to seize the collateral and sell it to pay off the loan" (Balkenhol and Schutte 2001, 7). The instance of gold-backed loans demonstrates innovation from the microfinance sector to enhance credit offtake. Nenova, Niang, and Ahmad (2009, 109) note how the commercial bank fixation on collateral – particularly immovable collateral – for lending to firms has impeded SME loan for which collateral is limited and movable. Regulatory intervention to allow flexibility in what is accepted as collateral as well as enhanced information sharing through a credit bureau is thus needed to expand SME lending (Nenova, Niang, and Ahmad 2009, 100). A credit bureau can be instrumental in creating a potential collateral substitute in the form of a credit history to enable financial access for groups that may not have cash or asset collateral required but nevertheless have a good repayment record (Nenova, Niang, and Ahmad 2009, 100)

Another context for collateralization is Pakistan-specific and arose from the need to balance risk management following the delinquency crisis of 2008: there was also pressure to deepen and widen microfinance as the SBP had recently committed to increasing outreach to 3 million by the end 2010 and 10 million by 2015 (SBP 2008). The viability of reaching targets through the group loan approach thus came under scrutiny: group or joint liability loans tend to be small enough to circumvent the issue of collateral, aside from social collateral in the form of the group guarantee (Aslam and Azmat 2012). But when loans are larger – albeit capped in size by the regulator – immovable assets are impractical to collateralize and often valued at much more than the loan itself. The need for collateral is thus linked to the push for larger loans because group members are wary of providing guarantees for large amounts: so, small value, liquid movables are considered more often by lenders to secure performance of obligations (Aslam and Azmat 2012). Specific collateral requirements for loans vary across banks and are available online, including on the respective websites of TMB and FMFB. TMB has a larger number of collateralized lending products including a few based on gold; FMFB has instead opted to offer loans based on tangible current assets, such as cash and near cash instruments, but also in some cases requires livestock or property as collateral.

The use of collateral also relates to the issue of steep interest rates on microfinance: these are invariably higher than those offered by commercial banks and attributed to the operational costs of microlending institutions (Rosenberg et al. 2013). Gold collateralization facilitated aggressive lending patterns: this resulted in swelling gross loan portfolios and larger loan counts. Within the year following regulatory approval, TMB, had managed to shift over 85% of its portfolio into gold-backed loans (PMN 2012): new verification processes allowed for credit to be disbursed within 3 days relative to the 21-day norm between application and disbursal for other products given the standard verification process. Gold collateral, as per prudential rules, is first evaluated by a "shroff" or local goldsmith, who has been pre-approved by the regulator (SBP 2015). This evaluation is much like a third-party guarantee: the "shroff" undertakes to purchase the gold at an agreed price, should the need – given defaults – arise. This process allows for quick disbursement as well as a lower lending rate: the PMN (2012) reports that gold collateralized loans tend to be 4–6% cheaper than uncollateralized loans.

This surge in lending was backed by TMB's success in deposit mobilization. Here is it is worth mentioning that deposit growth in Pakistan may be analyzed using a loanable funds approach in which deposit growth drives loan growth and not vice versa. This is consistent with the assumptions of Victoria Chick and Sheila Dow's stages of banking discussion (Chick and Dow 1988), and captures patterns associated with a large informal economy dominated by cash. Recent economic scholarship for advanced capitalist countries – particularly that which takes a heterodox approach – notes that deposit growth is caused by loan growth (Jakab and Kumhof 2015). But this approach loses relevance in a setting where cash transactions dominate the economy.

For Pakistani MFBs, individual depositor growth increased by 73% to 8.57 million in 2016 from 4.96 million in the previous year; translating into a 75% increase in deposits over the same time period (Telenor Bank 2016, 57–60). Interestingly, TMB in the same year, 2016, reported no borrowings from banks and other financial institutions: ostensibly choosing to rely on deposits instead. In contrast, individual depositors for FMFB increased to 0.44 million in 2016 from 0.28 million in the previous year: 57% growth in percentage terms but translating to a rise in deposit base of only 27%. Despite the incongruity in growth here, data for 2017 shows that TMB's deposit base at PKR 36.7 billion is large compared to FMFB's PKR 20.9 billion but the incongruity in depositor numbers indicate that the average deposit size for TMB is PKR 4,513 compared to PKR 29,086 for FMFB when institutional depositors are also taken into consideration.[7] It is noteworthy also that FMFB appears reliant on institutional donors whereas the opposite is true for TMB.

Audited financial reports further show that for TMB the impetus for individual depositors has been a successful strategy to enhance liquidity, with 67% of the deposit base coming from individuals, and the remainder from corporate firms, banks, and other financial institutions (Telenor Bank 2016). For FMFB, 47% of the deposit base is individuals, with the remainder from corporate firms, banks, and other financial institutions (The First MicrofinanceBank Ltd 2016, 16).

FMFB's relatively passive stance here may be attributed to the nature of their deposits. By avoiding costly liabilities from high-yielding deposits, FMFB avoided the need to push loan disbursement in the same manner as TMB. While TMB's growing reliance on deposits as a source of funding might be interpreted as a move toward intermediation, it is worth noting that despite this, the TMB banking model prioritizes non-mark up income over interest income: profits gained through lending are small relative to the profits TMB makes through fees and other charges, primarily through its payments and mobile money offerings. TMB's approach here was starkly different from FMB's: for the former, non-mark up income dominates, whereas for the latter it is a small fraction of what is earned through interest.

The payments business

Other than lending and credit provision, inclusive finance has become increasingly centered on payments services. There are various reasons for this, including a push from organizations such as the G20 backed Better Than Cash Alliance, to promote financial access through fintech or financial technology which improve the management and safeguarding of cash, and lower the costs of services like remittances.[8] But as noted by dos Santos and Kvangraven (2017) providers of such services are prone to uncompetitive behavior given the weaker regulatory settings of middle and low-income economies. In Pakistan's case the lax nature of data privacy and consumer protection laws is an important draw for global fintech players.

Fintech in Pakistan is at present almost synonymous with the payment service known as Easypaisa: the country's foremost digital payment and domestic money transfer service. Easypaisa was initially the proposed remedy to the burden of personnel costs which remained high despite the shift from a branch-oriented approach to one that relied on community centers and sales centers with satellite touch points (Mitha 2015). The management of Tameer was intrigued by the potential of a network of agents to open bank accounts and provide a full range of financial services using mobile technology, instead of traditional branches. They explored partnerships in Pakistan while piloting a branchless banking channel with CGAP to "test drive" various technologies including biometric ATMs and POS-based lending services.[9] At the same time Telenor, a Norway-based global telecommunications company, was facing difficult competition in Pakistan and had identified mobile money as an opportunity to generate an additional income stream given weakening mobile communications revenue. Regulatory requirements held that only a bank could hold a branchless banking license to offer mobile financial services: Telenor thus sought to partner with a financial institution and the potential for Easypaisa drove a partial acquisition of Tameer Microfinance Bank in 2008: the institution eventually became Telenor Bank after the Norwegian company raised its stake to 100% in 2016.

Telenor's role here was thus part of this multinational company's planned incursion into mobile money and resulted in the – eventual and immensely successful – launch of Easypaisa in 2009.[10] Contemporaneous initiatives included M-Pesa in Kenya, backed by Vodafone – and supported by research from DFID – which had launched in 2007. Elsewhere, mobile money services were in a nascent stage in Afghanistan in 2009 (Heinrich 2013), and Bangladesh in 2011 (CGAP 2014). Earlier, the appeal of mobile money had been proven in the Philippines where Smart's Smart Money launched in 2001 and Globe's GCash launched in 2004 (CGAP 2009). The two main products offered initially by Easypaisa provided services for utility bill payments and domestic remittances, offered through a network of 12,000 agents, who were generally owners of small retail businesses. This OTC (over-the-counter) model, with the help of extensive marketing campaigns, proved effective and Easypaisa met impressive results, processing five million transactions. By the end of 2012, this had risen to 100 million transactions of USD 1.4 billion in less than one year. Importantly, 70% of its customers were new and not Telenor Pakistan mobile subscribers (McCarty and Bjaerum 2013).

The management's decision to postpone the launch of a purely digital service by focusing on OTC was thus a sound one, that made it possible to serve all mobile phone subscribers instead of only Telenor Pakistan customers, whilst complying with KYC (know-your-customer) regulatory requirements based on a registration process that included a photograph, fingerprinting, and government issued identification documents. The model used by TMB may be likened to a Western Union wire transfer: the customer simply hands over cash to an agent who facilitates the transaction on the customer's behalf (Radcliffe 2013).

Despite its success, the OTC model appears to have created an issue of path dependence. This is evidenced by subsequent launches of competing mobile money products including Omni, MobiCash, and TimePey: in all of these cases both models were offered but OTC prioritized. A combination of the comprehensive KYC requirements and a telecommunications landscape without a dominant provider is a key reason for this but OTC popularity is also associated with low literacy levels: an easy to use system where customers access services locally from agents they know and trust, and also do not need to register with, is difficult to replace (McCarty and Bjaerum 2013). But the OTC model also means that consumers pay more: the costs of transferring money are calculated through flat fees which vary with slab-based transaction amounts. As a result, the percentage costs of a transaction rise when amounts are larger and fall with small amounts: this is a disadvantage for the poorest who transact with smaller sums. But this approach has prevailed with OTC models because it is seen to be transparent and easy to calculate.

A key implication of OTC dominance – with 87% of transactions based on this model – is that most customers do not register and own personal accounts: this is an impediment to digital finance that relies on personal accounts for the use of mobile phone-based services, such as savings, insurance, and loans (Radcliffe 2013). This is particularly irksome in Pakistan as every transaction is recorded through fingerprints and photographs. But it also represents an opportunity for new technology to bridge the gap between OTC and digital transactions. This appears to have been the motivation underlying TMB's third round of M&A, in early 2018 when China's Ant Financial – the fintech arm of e-commerce conglomerate Alibaba – purchased a 45% stake in Telenor a "strategic partnership" (Financial Times, 13 March 2018). Ant Financial's origins are in Alipay which was established in 2004 by Alibaba and its founder, Jack Ma, as a mobile payment platform: it eventually overtook the combined transaction value of Paypal and Square to become the leading payment platform globally. Ant Financial is "a technology company that brings inclusive financial services to the world" (Ant Financial 2017) and among the most triumphant instances of "unicorn" or start-up company valued in excess of USD 1 billion. Some valuations place it above financial giants such as BNP Paribas, Goldman Sachs, and Credit Suisse (Quartz 2018).

Ant Financial's specialist role in utilizing biometric technology to push financial inclusion is well established. Their foray into the Pakistan microfinance market appears to have been motivated by the biometric potential of mobile money, particularly given the prowess of Pakistan's National Database and Registration Authority database (NADRA) in biometric verification for financial transactions (Financial Times, 13 March 2018). The tech giant is known for its authentication expertise through technologies such as finger-print and facial recognition: these are used extensively by Ant Financial's own companies including its payment platform, Alipay, and tech developer, Megvii Technology (SBP 2017).

Discussion: inequities and financial citizenship in the Global South

Despite clearly different strategies and goals, both TMB and FMFB, eventually adopted similar strategies: an outcome of the homogenizing influence of attempts to make institutions "sustainable" through profit orientation. A particular driver of this has been the rising pattern of merger and acquisition activity, which has been boosted by the growing role of blended finance in development strategies. In relative terms, FMFB has remained closer to its objective of poverty reduction by eschewing the aggressive lending and deposit mobilization strategies used by its rival. But it is nevertheless in direct competition with institutions explicitly set up to profit from a previously untapped market. FMFB's success – despite taking a meeker approach – can be attributed to the backing of a large and influential foundation that includes a financial conglomerate. Lacking similar backing, TMFB has had to rely heavily on the merger and acquisitions strategies of telecom and fintech conglomerates.

The differing nature of funding sources has been of limited consequence and has not prevented both MFBs from wooing global capital. As a result, these institutions have designed – and continue to redesign – themselves as different yet similar to the mainstream banking sector. They are different because they offer opportunities for "leapfrogging": implying fast growth and innovation. But still, their proximity to traditional banks makes them appealing for investors and donors as part of the financial sector.

For TMFB the acquisition story demonstrates the role of the third narrative force in the financial inclusion agenda: that of digital finance. The first and second forces are the narratives of participatory/inclusive development and financial globalization, respectively. The confluence of these narratives is the logic of the digital financial revolution (Gabor and Brooks 2017) which seeks to map, monetize, and expand the digital footprints of poor people.[11] These narratives offer insights on the nature of financial citizenship, particularly how it is impeded by three sets of inequities which affect the clients of inclusive finance.

Inequities in rates or in pricing

This form of inequity is reflected most clearly in the divergence between lending rates, with consumers of inclusive finance having no choice but to borrow more expensively than their counterparts who have access to mainstream finance. This is not a Pakistan-specific issue and is debated in the literature which attributes high rates to the costs of funding (e.g. Bateman, Blankenburg, and Kozul-Wright 2018; Mader 2015; Aitken 2010): the shadow banking link is relevant here because funding costs are calculated based on a disintermediated banking model which relies on the OTD strategies and yield seeking imperative of global financial institutions.

Consumers of inclusive finance also face higher charges for services, such as money transfers and remittances. In Pakistan's case this is due to the OTC model of mobile money. This may be attributed to the financial infrastructural withdrawal – or in many cases, missing financial infrastructure – mentioned above which has created the space for branchless or mobile banking services. The alternative to traditional banking models are disintermediated banking approaches, which evade geographical constraints, as they do not rely on deposits from the general population and choose to focus on affluent urban clients instead. The absence of a branch network underlies the need for relatively pricier OTC transaction services.

Inequities in requirements and eligibility

Poor people can access only inclusive finance because the eligibility requirements of mainstream finance exclude them. While basic bank accounts might be a potential solution, they are limited in what they can offer: access to other types of accounts is limited by rules based on Basel and FATF. Inclusive finance is designed to overcome these rules, mostly because the BIS and FATF have been enlisted in the global push for financial inclusion.

Inclusive finance then may be seen as a form of officially sanctioned regulatory arbitrage, where MFBs seek to cover the clients that mainstream banks find too cumbersome to service. The issue of collateral is related to inequities in requirements because supervisory authorities ascribe lower risk weightings to collateralized microcredit: financial innovation in the form of products collateralized by gold replicates inequalities because it advantages those who have already accumulated collateral. Inclusive finance uses collateral that is different from that used in mainstream finance: for instance, livestock and jewelry rather than property and government securities.

In a Pakistani as well as broader South Asian context, Zulfiqar (2017: 476) notes that "unlocking dead capital" entails drawing into the financial sphere, objects which are culturally interwoven with "women's social standing and economic security". It thus deepens vulnerabilities.

Inequities in privacy and surveillance

Advances in financial technology have transformed the expansion and acquisition strategies of banks and other financial institutions. Aitken (2017, 274) reminds us that because "all data is credit data", financial institutions advance "a cluster of new practices designed to make visible – and extract value from – those without formal credit scores in contemporary financial markets". Fintech in advanced capitalist countries, uses credit scoring primarily to segment markets, but fintech in poor countries fixates on expanding the client base of the inclusive finance industry.

In Pakistan, expansion potential is eased by the presence of the colossal NADRA biometric database. This is a tool for inclusion because it uses reliable, government-issued identification; but it can also be exclusionary when poor credit scores are lasting and centralized given a lack of transparency and options for recourse. Credit scoring through fintech is also a product of disintermediation when banking is done without branch centered relationships: and it is related to the global search for yield which may only be sated through the creation of new debt.

Financial citizenship in the Global South

How generalizable are these inequities, drawn from examples of inclusive finance in Pakistan? The Pakistani case is representative of inclusive finance in the Global South for three reasons affixed to inequities presented above. The conditions and characteristics that make these inequities typical, rather than unique, are a corollary of a vast global financial system dominated by shadow banking practice and networks.

For instance, the inequities in rates and pricing described above are closely related to the operational costs of lending. This is driven by an infrastructure that requires microfinance lenders to borrow from non-bank financial institutions to create credit products for poor people. As Rosenberg et al. (2013) show through quantitative data, interest rates are high – and inclusive finance is expensive – not simply because poor borrowers are risky but because the microlending model has heavy administrative costs; these patterns are consistent with microlending practices across hundreds of countries.

Similarly, the influence of global shadow banking is relevant for a critical look at inequities in eligibility and requirement, particularly as it is motivated by regulatory avoidance. Inclusive finance is often a means for overcoming regulatory constraints imposed by documentation requirements. The FATF has been a hindrance for financial inclusion in many countries in the Global South, as shown by Pisa (2019), and de Koker (2014) primarily because of the administrative stipulations of KYC or know your customer, CDD or customer due diligence, and AML/CFT or anti-money laundering and countering the financing of terrorism. Because many poor people lack the documentation to meet these requirements, they are unable to access basic financial services, including but not restricted to credit, through commercial banks. As a result, they are limited to inclusive finance, which is usually costlier. A related issue is that because of banking regulations, shaped by the Basel Accords, banks are less likely to lend to the poor when capital requirements are more stringent. As explained empirically in Gurrea-Martínez and Remolina (2019), the full implementation of Basel rules may be socially undesirable for poor countries.

Furthermore, inequities in privacy and surveillance become prominent wherever fintech underpins financial inclusion strategies, because poor people are more susceptible to relinquishing data privacy and becoming part of a wider surveillance projects. This is captured through recent and critical empirical work on how credit data is gathered and analyzed in several countries in Africa, Asia, and Latin America (see Bernards 2019), and in more specific examples which implicate global financial institutions such as Mastercard in Kenya (Bhagat and Roderick 2020), and Credit Suisse in India (Jain and Gabor 2020) for extracting profits and exerting corporate power in the Global South. These examples reflect how shadow banking networks have been intertwined with the inclusive finance industry.

Could enhanced, or even complete, access to mainstream finance overcome the problems associated with inclusive finance and its absence? This is unlikely because mainstream finance too is in a state of flux and not invariably beneficial for its consumers. In the banking literature on the Global North the shortcomings of the sector are discussed, for example, as the breakdown of a social contract (Baradaran 2013). The social contract of banking describes an implicit arrangement in which the state offers banks a safety net in the form of protection from runs, liquidity shortages, and investor irrationality: in exchange, banks commit to operating safely and meeting collective and individual borrowing needs for economic expansion. The breakdown of the social contract is reflected in the rise of predatory lending including payday loans, car title loans, cash advances, etc. An overlapping argument is made by Rethel and Sinclair (2012), who note that the contemporary mainstream bank in the Global North self identifies as a "market player" rather than a "market authority"; as such the contemporary bank operates as a competitive institutions rather than one with a public or social purpose. To explain this, they describe an idealized form of financial institution as a "Jimmy Stewart" bank; after the actor's role in the 1946 Frank Capra film. Such a bank is one in which customer deposits fund the homes and businesses of their neighbors: the bank thus serves an altruistic purpose arising from a configuration in which such institutions function as "self conscious market authorities" and in which "long-term business relations trump short-term profit maximization" (Rethel and Sinclair 2012, 26). Because of transformations in government regulation, leading to financial disintermediation, the "Jimmy Stewart" bank no longer exists.

These observations problematize market driven models of banking and draw attention to the tension between profit maximization and the socio-economic role of finance. This tension is the underlying cause of a financial system with an outside as well as inside, hence the need for an evaluation of financial citizenship.

Conclusion

Financial citizenship is complicated and impeded in the Global South. The empirical contributions of this paper demonstrate how the inequities generated by two large microfinance banks in Pakistan, FMFB and TMB, are barriers to financial citizenship. Such barriers emerge when shadow banking subsumes inclusive finance. The theoretical contribution of this paper is to the literature on financialization in the Global South, particularly that which questions how financialization impedes financial citizenship. This approach is a departure from earlier critical scholarship on microfinance as a development intervention because it captures the simultaneous existence of inclusive finance and mainstream finance and interrogates why the two remain separate and distinct.

Through this analysis I explain how financial inclusion as policy agenda/ business model entrenches uneven access to finance, perpetuating the exclusion of the poor from mainstream finance. This is captured in the inequities that the inclusive finance as shadow banking generates in: (1) pricing and rates, (2) documentation and eligibility, and (3) inequities privacy and surveillance. These inequities are particularly problematic because they are faced by consumers of inclusive finance and not mainstream finance.

A financial citizenship lens advances a critical understanding of inclusive finance because, unlike earlier critical scholarship on microfinance as a development intervention, it captures the simultaneous existence of inclusive finance and mainstream finance, and interrogates why the two remain separate and distinct. Such an approach does not imply that complete access to mainstream finance can overcome the problems associated with financial inclusion and its absence. Mainstream finance too is in a state of flux and not invariably beneficial for its consumers. But given the structure of a financial system with an outside as well as inside, there is a need for analysis that resists binary depictions of inclusion and exclusion and is also cognizant of the gray areas in between.

Notes

1. Based on a narrow definition of shadow banking that refers to credit intermediation or liquidity transformation that occurs outside of banks, central banks, public institutions, insurance companies and pension funds. For alternative ways of defining shadow banking see FSB (2018).
2. The remainder of loans are issued by institutions without licenses to take deposits; instead they may use wholesale funds, including from commercials banks and microfinance investment funds, for on-lending. These are described as microfinance institutions or MFIs and regulated as non-banking microfinance companies, by the Securities and Exchange Commission of Pakistan. To facilitate comparison with mainstream commercial banks, and reflect the overwhelmingly privatized, commercially oriented nature of microfinance in the country, the focus of this article is on the deposit-taking microfinance banks, MFBs rather than MFIs.
3. The World Bank subsidiary organization, CGAP's role in promoting microfinance to institutional financial investors is discussed by Roy (2010).
4. A thriving worker-remittance market drove mobile money ventures such as EasyPaisa in Pakistan but also, for example, M-Pesa in Kenya (Mitha 2011).
5. There is limited transparency on MFB rates and these figures are based on estimates extrapolated from annual report data on cost of funds and net interest margins.
6. Moral hazard and adverse selection are the two components of information asymmetry and addressed through collateral. (Arnott and Stiglitz, 1986).
7. These estimates are based on annual financial statements from Telenor Bank (2017) and First MicroFinanceBank (2017).
8. Other sponsors include the World Bank, the International Finance Corporation and the United States Agency for International Development (USAID), and private-sector actors such as Visa, MasterCard, Citigroup and the Bill & Melinda Gates Foundation (dos Santos and Kvangraven, 2017).

9. For instance, hand-held “point of sale” bank machines.
10. USD 7 million was invested in the technology platform, national marketing campaign, organizational structure, and agent training, with an additional budget ringfenced for expected losses over initial years of operations: the service began operating at break-even quickly, fueling expectations that financial services will generate up to 10% of total revenue in Pakistan for the telecom giant (McCarty and Bjaerum 2013).
11. This is also described as “financial intrusion” (Financial Times, 31 July 2015,).

Acknowledgments

The author is grateful to Anastasia Nesvetailova, Sandy Brian Hager, and anonymous reviewers for their helpful comments.

ORCID

Juvaria Jafri http://orcid.org/0000-0002-4457-5098

References

Adrian, Tobias, and Hyun Song Shin. 2009. “Money, Liquidity, and Monetary Policy.” *American Economic Review* 99 (2): 600–605. doi:10.1257/aer.99.2.600.

Aitken, Rob. 2010. “Ambiguous Incorporations: Microfinance and Global Governmentality.” *Global Networks* 10 (2): 223–243. doi:10.1111/j.1471-0374.2010.00283.x.

Aitken, Rob. 2017. “‘All Data Is Credit Data’: Constituting the Unbanked.” *Competition & Change* 21 (4): 274–300. doi:10.1177/1024529417712830.

AKDN 2019. *Aga Khan Development Network*. Accessed 12 September 2021. www.akdn.org

Ant Financial. 2017. “Company Profile” *Ant Financial Services Group*. Accessed 10 January 2020. https://www.antfin.com

Arnott, R. and Stiglitz, J.E., 1986. “Moral hazard and optimal commodity taxation. “*Journal of Public Economics, 29*(1), 1-24.”

Aslam, A., and N. Azmat 2012. “Moving Towards Micro and Small Enterprise Lending” Pakistan Microfinance Network. Accessed 10 January 2020. www.pmn.org.pk

Balkenhol, Bernd, and Schütte Haje. 2001. “Collateral, Collateral Law and Collateral Substitutes” *ILO*. Accessed 10 January 2020. http://www.ilo.org

Baradaran, Mehrsa. 2013. “Banking and the Social Contract.” *Notre Dame Law Review* 89: 1283.

Bateman, Milford, Stephanie Blankenburg, and Richard Kozul-Wright, eds. 2018. *The Rise and Fall of Global Microcredit: Development, Debt and Disillusion*. London: Routledge.

Bernards, N. 2019. “The Poverty of Fintech? Psychometrics, Credit Infrastructures, and the Limits of Financialization.” *Review of International Political Economy* 26 (5): 815–838. doi:10.1080/09692290.2019.1597753.

Bhagat, A., and L. Roderick. 2020. “Banking on Refugees: Racialized Expropriation in the Fintech Era.” *Environment and Planning A: Economy and Space* 52 (8): 1498–1515. doi:10.1177/0308518X20904070.

CFI 2021. *Centre for Financial Inclusion*. Accessed 12 September 2021. https://www.centerforfinancialinclusion.org/

CGAP. 2003. “Microfinance Consensus Guidelines: Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance”. CGAP/The World Bank Group: Washington DC. Accessed 10 January 2020. https://www.cgap.org

CGAP. 2009. "Window on the Unbanked: Mobile Money in the Philippines" CGAP/The World Bank Group: Washington DC. Accessed 25 August 2021. https://www.cgap.org

CGAP. 2014. "bKash Bangladesh: A Fast Start for Mobile Financial Services" CGAP/The World Bank Group: Washington DC. Accessed 25 August 2021. https://www.cgap.org

Chen, G., and S. Rasmussen 2011. "Gold Backed Loans: Unlocking Liquidity for the Poor?" *CGAP Blog*. Accessed 10 January 2020. http://www.cgap.org

Chick, V., and S.C. Dow. 1988. "A Post Keynesian Perspective on the Relation between Banking and Regional Development." In *Post Keynesian Monetary Economics*, edited by P. Arestis, 219–250. Aldershot, UK: Edward Elgar.

Copestake, James. 2007. "Mainstreaming Microfinance: Social Performance Management or Mission Drift?" *World Development* 35 (10): 1721–1738. doi:10.1016/j.worlddev.2007.06.004.

de Koker, Louis. 2014. "The FATF's Customer Identification Framework: Fit for Purpose?" *Journal of Money Laundering Control* 17 (3): 281–295. doi:10.1108/JMLC-01-2014-0003

dos Santos, Paulo L., and Ingrid Harvold Kvangraven. 2017. "Better than Cash, but Beware the Costs: Electronic Payments Systems and Financial Inclusion in Developing Economies." *Development and Change* 48 (2): 205–227.

Dymski, G., and J. M. Veitch 1992. "Race and the Financial Dynamics of Urban Growth: LA as Fay Wray". *Working Paper*. Department of Economics, University of California, Riverside.

Dymski, G.A. 2005. "Financial Globalization, Social Exclusion and Financial Crisis." *International Review of Applied Economics* 19 (4): 439–457. doi:10.1080/02692170500213319.

Epstein, Gerald. 2015. "Financialization: There's Something Happening Here. Political Economy Research Institute" PERI - Financialization: There's Something Happening Here (umass.edu). Accessed 24 August 2021. https://peri.umass.edu/media/k2/attachments/WP394.pdf

FSB. 2018. "Global Shadow Banking Monitoring Report 2017." Financial Stability Board. Accessed 10 May 2021. https://www.fsb.org/wp-content/uploads/P050318-1.pdf#page=4

Gabor, D. 2018. "Goodbye (Chinese) Shadow Banking, Hello Market-based Finance." *Development and Change* 49 (2): 394–419. doi:10.1111/dech.12387.

Gabor, Daniela, and Sally Brooks. 2017. "The Digital Revolution in Financial Inclusion: International Development in the Fintech Era." *New Political Economy* 22 (4): 423–436. doi:10.1080/13563467.2017.1259298.

Global Findex Database. (2017). "Home. World Bank" https://globalfindex.worldbank.org Accessed 10 January 2020

Gurrea-Martínez, Aurelio, and Nydia Remolina. 2019. "The Dark Side of Implementing Basel Capital Requirements: Theory, Evidence, and Policy." *Journal of International Economic Law* 22 (1): 125–152. doi:10.1093/jiel/jgz002.

Heinrich, Erik. 2013. "How Afghanistan Is on the Leading Edge of a Tech Revolution" TIME. March 02. Accessed 25 August 2021. https://world.time.com/2013/03/02/how-afghanistan-is-on-the-leading-edge-of-a-tech-revolution

Husain, Osman. 2016. "He Started up at 49 and Soon Made Millions. Now He's Investing It All into Startups" Tech in Asia. September 28. Accessed 10 January 2020. https://www.techinasia.com/nadeem-hussain-investor-entrepreneur-pakistan

Hussein, M.H., and S. Plateau 2006. "The Lessons in Development: The AKRSP Experience." Proceedings from the International Conference organised by AKRSP along with DFID and CIDA, 2003. Accessed 10 January 2020. https://www.microfinancegateway.org

Jain, Sudeep, and Daniela Gabor. 2020. "The Rise of Digital Financialisation: The Case of India." *New Political Economy* 25 (5): 813–828. doi:10.1080/13563467.2019.1708879.

Jakab, Zoltan, and Michael Kumhof. (2015). "Banks are Not Intermediaries of Loanable Funds–and Why This Matters." Bank of England Working Paper No. 529.

Karwowski, Ewa. 2018. "Corporate Financialization in South Africa: From Investment Strike to Housing Bubble." *Competition & Change* 22 (4): 413–436. doi:10.1177/1024529418774924.

Khan, Feisal. 2010. "The Limits of Success? NGOs, Microfinance and Economic Development in Pakistan's Northern Areas." *Journal of Asian Public Policy* 3 (1): 53–70. doi:10.1080/17516231003634187.

KPMG. 2017. "Special Purpose Vehicles as a Development Mechanism" *KPMG Advisory Services*. Accessed 25 October 2019. https://assets.kpmg/content/dam/kpmg/ke/pdf/idas/thought-leaderships/SPVs-Impact-Paper.pdf

Leyshon, Andrew, and Nigel Thrift. 1995. "Geographies of Financial Exclusion: Financial Abandonment in Britain and the United States." *Transactions of the Institute of British Geographers* 20 (3): 312–341. doi:10.2307/622654.

Littlefield, Elizabeth L., and Christoph Kneiding. 2009. "The Global Financial Crisis and Its Impact on Microfinance" *CGAP*. Accessed 25 August 2021. https://www.cgap.org/research/publication/global-financial-crisis-and-its-impact-microfinance

Mader, Philip. 2015. "*The Political Economy of Microfinance.* London: Palgrave Macmillan.

McCarty, Yasmina M., and Roar Bjaerum. 2013. "Easypaisa: Mobile Money Innovation in Pakistan" *GSMA*. Accessed 25 August 2021. https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2013/07/Telenor-Pakistan.pdf

Mitha, Aiaze. 2011. "The Transformative Role of Mobile Financial Services and the Role of German Development Cooperation" *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*. Accessed 10 January 2020. https://www.giz.de

Mitha, Aiaze. 2015. "Mobile Financial Services for Microfinance Institutions: Case Study of Easypaisa and Tameer in Pakistan" World Bank Group. Accessed 10 January 2020. http://documents.worldbank.org

Nenova, Tatiana, Cecile Thioro Niang, and Anjum Ahmad. 2009. *Bringing Finance to Pakistan's Poor: Access to Finance for Small Enterprises and the Underserved*. Washington D.C: World Bank Publications.

Nesvetailova, Anastasia, ed. 2017. *Shadow Banking: Scope, Origins and Theories*. MiltonPark, Abingdon, Oxfordshire: Routledge.

NFIS. 2015. "National Financial Inclusion Strategy" State Bank of Pakistan. Accessed 10 January 2020. http://www.sbp.org.pk

Pike, Andy, and Jane Pollard. 2010. "Economic Geographies of Financialization." *Economic Geography* 86 (1): 29–51. doi:10.1111/j.1944-8287.2009.01057.x.

Pisa, Michael. 2019. "Does the Financial Action Task Force (FATF) Help or Hinder Financial Inclusion? A Study of FATF Mutual Evaluation Reports. Centre for Global Development." *CGD Policy Paper 143* May 2019. Accessed 25 August 2021. https://www.cgdev.org

PMN. 2012. "Annual Report - 2011-12." Pakistan Microfinance Network. Accessed 15 July 2021. http://www.microfinanceconnect.info

PMN. 2015. "Annual Report - 2014-15." Pakistan Microfinance Network. Accessed 15 July 2021. http://www.microfinanceconnect.info

PMN. 2016. "Annual Report - 2015-16." Pakistan Microfinance Network. Accessed 15 July 2021. http://www.microfinanceconnect.info

PMN. 2017. "Annual Report - 2016–17." Pakistan Microfinance Network. Accessed 15 July 2021. http://www.microfinanceconnect.info

PMN. 2019. "Annual Report - 2018-19" Pakistan Microfinance Network. Accessed 15 July 2021. http://www.microfinanceconnect.info

Pozsar, Zoltan. 2008. "The Rise and Fall of the Shadow Banking System." *Regional Financial Review* 44 (2008): 1–13.

Quartz. 2018. "Ant Financial's $100 Billion Valuation Would Put It in the Same League as the World's Biggest Banks" 12 February. Accessed 10 January 2020. https://qz.com/1204717/chinas-ant-financial-plans-to-raise5-billion-reportedly-at-a-valuation-of-100-billion

Radcliffe, Dan 2013. "Why Aren't Pakistan's Mobile Money Customers Opening Accounts?" *GSMA*. Accessed 10 January 2020. https://www.gsma.com/mobilefordevelopment/country/pakistan/why-arent-pakistans-mobile-money-customers-opening-accounts

Ratings, Fitch. 2019. "Global Shadow Banking Growth Increases Systemic Risks" *Fitch Wire*. Accessed 10 May 2021. https://www.fitchratings.com/research/non-bank-financial-institutions/global-shadow-banking-growth-increases-systemic-risks-21-05-2019

Rethel, Lena, and Timothy J. Sinclair. 2012. *The Problem with Banks*. London: Zed Books .

Rosenberg, R., S. Gaul, W. Ford, and O. Tomilova. 2013. "Microcredit Interest Rates and Their Determinants: 2004–2011." In *Microfinance 3.0*, edited by D. Kohn, 69–104. Berlin Heidelberg: Springer-Verlag.

Roy, Ananya. 2010. *Poverty Capital: Microfinance and the Making of Development*. New York: Routledge.

SBP. 2006. "Financial Stability Review 2006" *State Bank of Pakistan*. Accessed 10 January 2020. http://www.sbp.org.pk

SBP. 2008 SBP Governor launches Key Microfinance Sector Development Initiatives. State Bank of Pakistan. Accessed 12 September 2021. https://www.sbp.org.pk/press/2008/MF-Initiatives-19-Dec-08.pdf

SBP. 2015. "Financing against Gold Backed Collateral-Instructions for MFBs. Annexure to Prudential Regulations" *State Bank of Pakistan*. Accessed 10 January 2020. http://www.sbp.org.pk

SBP. 2017. "Branchless Banking Newsletter July – September 2017" State Bank of Pakistan. Accessed 10 January 2020. http://www.sbp.org.pk

SBP. 2021. "Economic Data" *State Bank of Pakistan*. Accessed 10 January 2020. http://www.sbp.org.pk

Singh, Manmohan, and Zoltan Pozsar. 2011. "Can Shadow Banking Be Addressed without the Balance Sheet of the Sovereign" IMF WP/11/289. Accessed 25 August 2021. https://www.imf.org/external/pubs/ft/wp/2011/wp11289.pdf

Telenor Bank. 2016. "Annual Report 2016." Accessed 10 January 2020. https://www.telenorbank.pk

The First MicrofinanceBank Ltd. 2003. "Stakeholders" Accessed 10 January 2020. https://www.fmfb.pk/about-us/stakeholders

The First MicrofinanceBank Ltd. 2016. "Annual Report 2016" Accessed 10 January 2020. https://www.fmfb.pk

Zulfiqar, Ghazal M. 2013. "Microfinance: A Tool for Financial Access, Poverty Alleviation or Gender empowerment?–Empirical Findings from Pakistan." Doctoral Dissertation. University of Massachusetts Boston.

Zulfiqar, Ghazal Mir. 2017. "Financializing the poor:'dead capital', women's gold and micro-finance in Pakistan." *Economy and Society*, 46(3-4), pp.476–498.