Shadow financial citizenship and the contradictions of financial inclusion in Pakistan

Juvaria Jafri

1. Introduction

Financial inclusion is presented as a remedy for financial exclusion. But this relationship — in which financial inclusion and exclusion are opposites and also mutually exclusive — is dubious given the notion of financial citizenship which 'confers a right and ability on individuals and households to participate fully in the economy and to accumulate wealth' (Leyshon, 2009). Despite the growing recognition that financial inclusion is not the same as financial citizenship, the former is still used as a development intervention in the form of tools such as microloans and mobile money. These forms of 'inclusive finance' are thus inextricably, and increasingly, tied to what is known as 'the financialisation of development' (Roy, 2010) and underlie a fundamental contradiction of inclusive finance: the tendency to promote economic dualism by bifurcating the financial sector. The contribution of this chapter is to highlight the connection between these two notions, through the concept of shadow financial citizenship. Because strategies that financialise development also bifurcate finance, they execute an inferior form of inclusion and of access to finance. The phenomena of shadow financial citizenship is thus a feature of finance geared to economies that some scholars describe as dualistic (Lewis, 1956) and where the lines between informal and formal financial markets have hardened (Dymski, 2005) by banking strategies that target the poor, working and earning in informal markets (Karnani 2009; Pralahad 2005).

The notion that inclusive finance is a form of shadow banking is not a novel one: Ghosh et al. (2012) note that shadow banking in developing countries is exemplified by finance companies and microcredit lenders who provide credit and investments to underbanked communities, subprime customers, and low-rated firms. Lyman et al (2015) focus on the destabilizing role of shadow banks. They note that despite similarities, inclusive finance tends to be closely regulated and is thus far removed from the shadow banks responsible for the financial crisis of the last decade. But as argued here, concerns about the intrusion of shadow banking into inclusive finance — transcend the risks of instability and of potential crises — and pertain to uneven development akin to what Andrew Leyshon and Nigel Thrift attribute to transformations in American and British banking and finance in the 1990s (Leyshon and Thrift, 1995; 1993).

It is observations such as these that inform the notion of geobanking: the various public and private aspects of banking that shape geopolitical trends. The geographical variation in access to finance that resulted from changing models of banking, in the Anglo American economies, is identified by Leyshon and Thrift (1995) as underlying the geography of wealth and income. Such disparities came to seen as a problem of financial exclusion: a phenomenon which geographers attach to the structure of the financial system and the attitude of the state to finance (Dymski, 2005; Leyshon and Thrift, 1995; 1993). This paper applies a similar approach to examine financial inclusion in the Global South: the poor country counterpart of the same problem. The nature of financial inclusion is shaped by the shadow banking industry, demonstrating how finance, both public and private, shapes geopolitical trends.

The outcome of this is an institutional form of shadow financial citizenship whereby the poor — those previously described as ‘unbanked’ or ‘financial excluded’ — are offered higher costs and limited access for the same services used by their relatively wealthier counterparts. These issues of inequality and its reproduction (Bateman and Chang 2012; Taylor, 2012) have been aggravated by the rise of fintech and what Gabor and Brooks (2017) call ‘the digital revolution in financial inclusion’: the quest to generate surpluses from the mapping, expansion, and monetisation of digital footprints. There are two components to this discussion of shadow financial citizenship; one is the process whereby inclusive finance becomes shadow finance; another is the nature of financial citizenship offered by such shadow financial institutions.

2. Bifurcated banking: dualistic finance in Pakistan

An empirical setting for this discussion is the financial sector of Pakistan. The bifurcation of banking here — and also in other poor countries — is the outcome of a separation of mainstream and inclusive finance. The role of the regulators offers a context for examining two key trends that have occurred in Pakistan's microfinance market. One of these is the transition from informal finance to formal finance; another is the commercialisation of microfinance under the umbrella of financial inclusion. Nevertheless, even in a formal, commercial iteration, inclusive finance tends to be closer — both in terms of clientele and lending strategy — to informal finance than to formal finance. This is unsurprising given that the origins of the financial inclusion are in the Grameen Bank model which was designed with explicit purpose of providing an alternative to existing systems of finance: formal and informal.

> "Founded by Muhammad Yunus in 1983, the Grameen Bank pioneered a simple model of credit whereby small groups of poor women are able to secure small loans at reasonable rates of interest. The model is meant to serve as an alternative to both formal systems of banking that demand collateral and exclude the poor and informal systems of finance that prey on the poor." (Roy, 2010, p.3)

Colonial legacies and the regulation of informality

Unregulated and often described as usurious, informal finance[1]is in many studies on poor countries, presented as a temporary phenomenon, eventually to be replaced by formal finance. The concepts of informal and formal finance are analogous to those of the informal and formal economy. These are frequently associated with the work of the Nobel Laureate, Sir Arthur Lewis, whose two-sector model of a capitalist and a subsistence sector highlighted the wage gap between the two sectors (Lewis, 1954). The differential was attributed to the exclusivity of reproducible capital, which was available only to the capitalist sector. Analysing informal finance in the Global South, Fischer (1994) expresses scepticism over the use of this dualist lens — which underestimates the substance of contemporary informality — because empirical evidence shows informality to persistent and resilient. The transient nature of informal finance has been the subject of studies by numerous economic anthropologists including Geertz (1962) and Drake (1980), Kurtz (1973), and Chandavarkar (1985). The logic of such scholarship is that informal finance is a residual category, created from the marginalisation that occurs because of formal finance's penchant for mainstream economic activity. As Andrew Fischer notes:

> "In the 1950s, when theories of growth were popular and colonialism was still kicking, informal finance was considered by most academics and policy makers to be a manifestation of traditional (indigenous) economic attitudes. The attention towards basic needs in the 1970s led many to interpret informal finance as an adaptation by the third world poor to their marginalisation from formal economic activities. And of course, the drift towards neoclassicism in the late 1970s and 1980s generated a focus on informal finance as a mutant yet liberal response to overly interventionist governments." (Fischer, 1994).

The formal-informal divide in finance may also be seen as an artefact of colonialism. This perspective is attributed by Roy (2016) to the 'new institutional economic history' approach; the same lens used by Acemoglu and Robinson (2012) in their 'Why Nations Fail' hypothesis. A key feature of colonial financial development was a duplicitous stance, by imperial governments, on monopolies. Restricted at home but not in the colonies, where they were propped up for extractive reasons, they benefited from local production and trade (Fischer, 1994). The outcomes of this were; first, a heavy concentration in colonial finance that was anomalous relative to the banking system at home; and second, an overt preference for the formal which allowed informal financial institutions and practices to thrive as colonial finance was absent in the local economy (Fischer, 1994).

Roy (2016) observes how the policymaker's unease, in the late-colonial period, around informal finance and related local phenomena obliged them to conduct a large scale banking enquiry in 1929-30. However, following independence from British rule in 1947, the state took steps to outlaw indigenous banking in India completely (Roy, 2016). In Pakistan, simultaneously and newly independent, the situation appears to have been slightly different. Indian policymakers had managed to bring down the share of informal financiers— who tended to be professional moneylenders — in rural credit to less than 36%, from 80% over the 1951 and 1971 period (Binswanger and Khandker, 1992). For Pakistan, Manig (1996) shows that in 1972, 89 per cent of credit was drawn from informal sources, who were principally friends and family. This divergence in informal credit use was in all likelihood, the outcome of multiple factors, including the shape of government policy. A comparative analysis is outside the scope of this chapter but it is likely that the rate at which interest tended to be charged for such informal transactions in South Asian economies is of relevance. Manig (1996) noted that most informal credit in Pakistan — owing to Islamic practices combined with the embedding of credit relations in other economic and social interactions — was being offered without interest. This is corroborated by survey data (Irfan, Arif, Ali, and Nazli 1996) which indicates that formal lenders charge an interest rate of 19% while informal lenders charge 23%: it is telling that money lenders, which are included in the calculation for informal rates, drag up the average considerably as they charge interest ranging from 48% to 120%. Relatively low informal rates in Pakistan could explain why a supply-lead approach, one in which the state actively promotes formal finance to replace informal finance, was more likely to be efficacious in India than in Pakistan.

In Pakistan, the stance of the government is also reflected in its involvement in key initiatives such as the OPP and AKRSP, which pioneered the microfinance movement; respectively in the urban and rural context. The OPP (Orangi Pilot Project), and the AKRSP (Aga Khan Rural Support Programme) share commonalities with the original Grameen vision of Dr Muhammad Yunus. This is so because of their mutual roots in the Comilla Model, associated with the Dhaka — and subsequently Karachi[2] — based social scientist, Dr Akhtar Hameed Khan. Originally developed at the Bangladesh (formerly Pakistan) Academy of Rural Development, the Comilla Model sought to integrate several public and private resources to build an institutional base for various development programs. The OPP was thus initiated as a grassroots development project, emphasising 'self-help' as the primary means of developing the "katchi abadis" — informal sector — of urban Karachi (Zaidi, 2001). Similarly, the AKRSP was established in 1982 by the Aga Khan Foundation with a specific geographical focus: development interventions in the Northern Areas of Pakistan (Khan, 2010). For both of these initiatives, microcredit was one component of the development interventions the organisation sought to deliver; other components included health, education, and sanitation. Interestingly, the microcredit component was eventually absorbed by the financial sector, on the pretext of financial liberalisation.

Phases of development and the regulation of liberalisation

The banking sector in Pakistan, which became independent from British colonial rule in 1947, has passed through several distinct phases. The present phase is the continuation of a financial liberalisation process — initially pushed by the IMF and World Bank — that began in the 1990s and installed the feature of central bank autonomy.

When colonial rule ceased in the Sub-continent, the Reserve Bank of India was the de facto central bank for both newly independent countries. The Pakistan banking industry felt disadvantaged by this arrangement so a separate central bank, the State Bank of Pakistan, was formed in 1948 (SBP, 2016). Shortly after that, in 1949, a nationalised commercial bank, the National Bank of Pakistan, was formed as well. The State Bank of Pakistan Act was introduced in 1956 and the Banking Companies Ordinance in 1962. These would undergo amendments decades later to facilitate the liberalisation of the banking industry, following rounds of nationalisation in the 1970s and then privatisation in the 1990s (Burki and Ahmad, 2010).

The Bank Nationalisation Act of 1974 allowed the government to merge all domestic banks into five state-owned commercial banks. Under this arrangement, the banking sector became was instrumental to a state-led development policy based on channelling credit to specific economic sectors (Burki and Ahmad, 2010). At the time, this direct lending approach was immensely popular in the developing world — including across the border, in India — given the accomplishments of the East Asian economies, particularly South Korea, Japan, and Taiwan (Kohli, 1997). However, in the 1980s, widespread corruption in staffing and loan disbursements lead to the nationalized banks becoming bloated and inefficient with poor asset quality (Burki and Ahmad, 2010). Reports of this, combined with growing disdain in policy circles for interventionist state models, set the tone for market-based approaches to financial development.

> 'The clearest policy statement on the future of these programmes, which is to be found in the World Bank (1989), dismisses directed credit programmes as an ineffective policy measure for achieving growth and redistributive objectives. It argues instead for financial reform by moving towards a market-based allocation of resources so that investments with high rates of return are financed, leading to an increase in the average productivity of investment and rate of economic growth.' (Kohli, 1997)

Financial liberalisation commenced in 1991 with amendments to the Bank Nationalisation Act. A Privatisation Commission was also established in the same year. Several domestic and foreign banks were permitted to operate and, preparations made for the government to divest ownership in the nationalised banks. In 1997, backed by a USD 300 million World Bank loan, these institutions launched voluntary golden handshake schemes to eventually release 21,966 employees over a 2 year period (Burki and Ahmad, 2010). Other important features of the reforms included the removal of interest rate ceilings and efforts to create a mechanism for determining a market rate of interest (Hanif, 2002) as well as the closure of over 2000 bank branches over a 6 year period (Burki and Ahmad, 2010).

2.3 Financialised development and the regulation of microfinance

It was in this environment of reform that microfinance was incorporated into the financial landscape. The government, with a loan from the ADB (Asian Development Bank) undertook the initiative to offer regulated microfinance services and requested established commercial banks in Pakistan to become shareholders in a newly created microfinance institution. The Khushhali Bank Ordinance was specially passed in 2000 to support the creation of Khushhali Bank under the ADB's Microfinance Sector Development Program and also the Government of Pakistan's Poverty Reduction Strategy (ADB, 2008). The Microfinance Institutions Ordinance 2001, and also prudential regulations for microfinance banks, were subsequently introduced to specifically deal with the incorporation, regulation and supervision of microfinance banks in Pakistan (ADB, 2008).

Since then, teething issues aside, microfinance in Pakistan has strengthened its hold as a noticeable feature of banking in Pakistan. At present, there are three categories of microfinance lenders: MFBs (microfinance banks), MFIs (microfinance institutions), and RSPs (rural support programmes), and two regulators. The central bank, the State Bank of Pakistan, is the regulator for one of these categories: microfinance banks/ MFBs. The Securities and Exchange Commission is the regulator for the other two categories: microfinance institutions/ MFIS, and rural support programmes/ RSPs.

MFBs are licensed and regulated by the SBP for the purpose of providing microfinance services. More specific details are available in the prudential regulations which describe 'microfinance services' as 'mobilizing deposits from the public and providing credit to poor persons[3] and microenterprises' (SBP, 2014). MFIs and RSPs are not permitted to take deposits. Since 2016 these non-deposit taking institutions are regulated by the Securities and Exchange Commission which is an autonomous body. The current mandate of the SECP includes the regulation of the corporate sector and capital market, as well as the supervision and regulation of insurance companies, non-banking financial companies and private pension schemes. Additionally, it is responsible for overseeing various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, and surveyors. Noteworthy, in this structure is that the dominant form of microfinance in Pakistan is of a commercial nature; most of it offered by MFBs — deposit-taking institutions regulated by the central bank — and the nature of wholesale funding through apex funds emphasises sustainability even within the non-deposit taking institutions that operated on a non-profit basis in the past.

Table 1: Share of Gross Loan Portfolio by Institution Type

	2012	2013	2014	2015	2016
MFB	57%	60%	58%	61%	68%
MFI	23%	22%	24%	23%	20%
RSP	20%	18%	18%	16%	12%

Source: Pakistan Microfinance Network (2016)

2.4 The commercialisation of inclusion

The ascendancy of commercial microfinance may be heavily attributed to the support of two key institutions; the State Bank of Pakistan, and the World Bank. The backing of the central bank for the microfinance — and subsequently — the financial inclusion movement has been unwavering since the early 2000s when the first licenses for MFBs were issued. In 2006, the SBP took measures to encourage commercial banks to offer microfinance services, which could otherwise be offered by microfinance banks operating under a separate legal and regulatory framework: at the time Pakistan was one of only a handful of countries to have special prudential regulations for microfinance (SBP, 2006).

In 2007-2008, the SBP was able to enlist the support of the UK Department for International Development, along with the Government of Pakistan to launch the FIP (Financial Inclusion Programme) to ‘provide equitable and efficient market-based financial services to the otherwise excluded poor and marginalized population including women and young people’ (SBP, 2008). The salient features of FIP include (1) a strategy that sought to engage the wider banking sector, particularly commercial banks, in enhancing access to financial services and (2) a planned shift from ‘reliance on subsidies to market based, sustainable and inclusive financial services’ through the use of commercial bank debt, syndication arrangements, and term finance certificates, and also government-backed credit guarantee schemes (SBP, 2008). The SBP Microfinance Credit Guarantee Facility has been particularly successful[4] in this regard by channelling wholesale funds from the commercial banks to the microfinance sector (SBP, 2017a). The overall strategy appears to have been fruitful based on the standard measures for sustainability: the industry’s operational self-sufficiency (OSS) and financial self-sufficiency (FSS) have both been consistently above one hundred per cent since 2012, and have also been widening relative to each other since 2014 (PMN, 2017). This widening captures the role, primarily, of cheap credit, indicating that despite success in commercialising microfinance, financial expenses for the sector are often at rates below the market cost of funds. This observation is a basis for drawing the role of apex funds — and the World Bank — into this discussion.

Apex funds are an example of ‘blended finance’ strategies: these are 'financing mechanisms that link a grant element, provided by ODA, with loans from publicly-owned institutions or commercial lenders', representing a major shift which not only moves ODA from the public to the private sector but also replaces it with private finance (Bonizzi et al, 2015; Van Waeyenberge 2016). Apex funds altered Pakistan’s microfinance landscape in 2000 when the Pakistan Poverty Alleviation Fund (PPAF) commenced operations as an autonomous not-for-profit company. This organisation had been in existence since 1997 but underwent regulatory changes following official approval in 1999 for a 5 year World Bank project.

> “The World Bank funded Pakistan Poverty Alleviation Fund Project was designed to reduce poverty and empower the rural and urban poor in Pakistan. The project provides access to much-needed microcredit loans and grants for infrastructure and capacity building. As such, the PPAF project aims to help the rural poor in Pakistan get out of a cycle of misery, and get into a virtuous cycle of opportunities.” (World Bank, 2005).

The total project cost was USD107 million; the Government of Pakistan committed to USD10 million as equity; the World Bank credit of USD 90 million was provided through the International Development Association — the Bank's concessionary lending arm — as a single-currency loan repayable in 35 years with a 10-year grace period; and the remainder was to be in the form of community contributions. This project came to be known as PPAF 1 and concluded in 2005. It was followed by PPAF 2 which began in 2006 and concluded in 2011. PPAF 3 began in 2009 and concluded in 2016. The respective tranches for these subsequent programmes from the World Bank were USD 238 million and 250 million[5].

The next major advance in the commercialisation of microfinance was the launch of the Pakistan Microfinance Investment Corporation (PMIC) in 2016. PMIC has the sole purpose of providing wholesale funding for microfinance by allowing PPAF to spin off its microfinance operation and establishing a new company in partnership with the Karandaaz Foundation, and KfW. The Karandaaz Foundation is a non-profit organisation backed by DFID and the Bill and Melinda Gates Foundation, whereas KfW, based in Frankfurt — originally Kreditanstalt für Wiederaufbau — is a German government-owned development bank. The objective of PMIC is to attract funding from ‘development agencies, financiers, commercial banks and capital markets’ using a commercial — profit focused — structure (PMIC, 2018). Despite being a private sector investment company, the PMIC plays a central role in official government policy for financial inclusion. This is evident from the emphasis on micro, small, and medium enterprise lending in the National Financial Inclusion Strategy which was launched in 2015 and which explicitly mentions the creation of PMIC for the objective of enhancing commercial funding for both, MFBs/ MFIs.

The NFIS 2015 is the cornerstone for a number of policies that emphasise alternatives to traditional banking — such as bank agents, ATMs, mobile money agents and remote access through mobile phones and the internet — for countering the issue of financial exclusion. Backed by the Ministry of Finance, the State Bank of Pakistan, and the Securities and Exchange Commission, this initiative calls for enhancing access to credit for SMEs as well as financial inclusion and deepening (SBP, 2015a).

> ‘Most financial institutions have focused on the upper end of the business and retail markets and have not developed the skills, techniques and products required to serve other market segments profitably. While microfinance banks have developed this knowledge for microfinance clients, there is a large ‘missing middle’ which is currently not being served.’ (SBP, 2015a)

2.5 Branchless, digital, and mobile: the evolution of transactions

The strategy also notes that universal access to formal accounts need not be limited to traditional savings and transaction accounts but also include digital transactional accounts (DTAs), primarily branchless banking accounts, for which Pakistan is a rapidly growing market (SBP, 2015a). This advance was catalysed by the introduction, in 2008, of the Branchless Banking Regulation which permitted banks to leverage rapidly expanding mobile phone networks for financial services: nearly 80% of Pakistani aged 15 and over have access to a mobile phone (Rashid, 2015).

The focus on digitisation is an extension of wider, international trends: these are reflected in the multilateral institutions shaping finance in the Global South, and consequently endorsing the expansion of this geobanking structure. Three organisations are of particular relevance here: the Alliance for Financial Inclusion (AFI), The Better Than Cash Alliance (BTCA), and the Financial Action Task Force (FATF). The influence of these institutions ensures that the nature of financial transformation in Pakistan is circumscribed within the directives that they issue: these are reflected in the NFIS[6].

Much of the NFIS is influenced by the AFI which was founded in 2008 as a project of the Bill & Melinda Gates Foundation and also supported by the Australian Agency for International Development (AusAid). The AFI bases its practices on a 'South-South peer learning approach and truly member-driven governance (Alliance for Financial Inclusion, 2017). The Maya Declaration is arguably the AFI's most widely known initiative. Launched in 2011 at the Global Policy Forum (GPF) in Riviera Maya, Mexico, it is known as the first global and measurable set of commitments to financial inclusion (Alliance for Financial Inclusion, 2017) and counts over 80 countries, including the SBP among its signatories.

> 'When a country commits to the Maya Declaration, they make measurable commitments in four financial inclusion areas: create an enabling environment to harness new technology that increases access and lowers costs of financial services; implement a proportional framework that advances synergies in financial inclusion, integrity, and stability; integrate consumer protection and empowerment as a key pillar of financial inclusion; utilize data for informed policymaking and tracking results.' (Center for Financial Inclusion, 2013).

Also emphasised in the NFIS is G2P or government to person transactions: this reveals the influence of the BTCA which was launched in 2012, and jointly funded by the Bill & Melinda Gates Foundation, Citi Foundation, MasterCard, Omidyar Network, United States Agency for International Development, and Visa Inc., and housed within the United Nations Capital Development Fund. The overriding objective of this organisation is to shift from cash to digital payments: this is ostensibly a tool to promote financial inclusion and thus reduce poverty.

> "The harsh reality is that the only way to make or receive payments for many poor people across the world is by using paper money in the informal sector - which is a barrier to the use of formal financial services. Cash-based transactions are also typically unsafe, expensive, inconvenient, inefficient, and lack transparency for governments, companies, and citizens alike." (Better Than Cash Alliance, 2017)

One focal point here is the issue of corruption; another is the perception that G2P arrangements allow for the attainment of scale through bulk payments (SBP, 2015a) and may thus function as an 'on-ramp to financial inclusion' (Stuart, 2015). Pakistan's membership of the BTCA makes it eligible for technical assistance and funding to support the transition from cash to digital for G2P payments.

2.6 Systemic vulnerability and the regulation of security

Issues of terror funding and money laundering are of particular relevance in a Global South context: a point noted by the Financial Action Task Force (FATF) which was established in 1989 as a Paris based, intergovernmental policy-making body, that 'works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse' (FATF, 2018). FATF's incursion into the inclusive finance movement began in 2011, when the organisation issued a guidance paper to ensure that countries 'meet the national goal of financial inclusion, without compromising the measures for combating crime': this paper was updated in 2013 and subsequently in 2017 (FATF, 2018). Central to FATFs position is the notion of 'a proportionate approach to risk': this mirrors the principles adopted by the Bank for International Settlements (BIS) and the World Bank (Aron, 2017). This is reflected in the policy of the SBP on branchless banking (BB). BB accounts are categorised by three levels with level 0 and level 1 BB accounts for individuals and level 2 accounts for individuals as well as firms, entities, trusts, not-for-profit organizations, corporations etc. Know-your-customer (KYC) requirements, and daily and monthly transaction limits vary depending on account type (SBP, 2015a).

A core feature of the inclusive finance via branchless banking approach in Pakistan is the role of biometric technology. The National Database and Registration Authority (NADRA) of Pakistan is recognised as a global leader in the 'application of identification systems and technology to a range of development issues' (Gelb, cited in Malik, 2014). The main objective of this institution, since its inception in 2000, is to issue computerised national identity cards, (CNICs), with a unique thirteen digit number to Pakistanis aged 18 and over. The CNIC is a requirement for conducting transactions of various types with the government as well as the private sector: for instance, voting in elections; applying for a passport or driving license; purchasing vehicles, land, and other assets; purchasing a plane or train ticket; obtaining a mobile phone SIM card; opening and maintaining a bank account; and conducting financial transactions.

Following an anti-terror drive in early 2015, the Pakistan Telecommunication Authority proceeded to block all mobile phone SIMs that had not been biometrically verified (Craig and Hussain, 2015). As a result, every mobile phone number in Pakistan is now associated not only with a CNIC number but also with a set of fingerprints. This has facilitated Pakistan's commitment to FATF standards as biometric verification eases customer due diligence (CDD) requirements. It is estimated that as much as 98% of Pakistan's adult population is registered with NADRA (Malik, 2014).

As a result of the regulatory environment described above, financial inclusion in Pakistan has come to be associated with inclusive finance products that emphasise a form of banking that is commercially oriented, digitally distributed and heavily regulated by national as well as international institutions. The following section describes how such practices make it easy for the purveyors of microfinance to resist a banking model based on intermediation, and to position themselves, as shadow banks do, to attract global capital in various forms.

3. Shadow banking and shadow financial citizenship

The fixation with commercial viability underlies the absorption of inclusive finance by the shadow banking industry, which is distinct from traditional banking because it does not operate 'under one roof' (Ghosh et al, 2012): it is thus different from traditional commercial banks — that are financial intermediaries for depositors and lenders — because it relies on a more complex set of transactions. According to the Financial Stability Board (FSB, 2011), a distinguishing feature of shadow banking is that 'it decomposes the process of credit intermediation into a sequence of discrete operations'. This creates a situation which is akin to 'banking upside down'; a phrase Helgadottir (2016) uses to refer to the shadow banking system in which:

> "As opposed to traditional banking, which carries out the maturity transformation within one institution, shadow banking breaks the process down into several discrete steps that are carried out by different entities." (Helgadottir, 2016)

Helgadottir's (2016) political science frameworks — used to draw on the shadow banking concept outside of the purely financial literature — are relevant here; rent-seeking; institutional adaptation; and inequality. Rent seeking is related to the changes in development policy that have occurred alongside transitions in the structure of finance. For instance, the Washington consensus policies, of the World Bank and IMF, that drove financial liberalisation, thus transforming the role of the financial sector. This competitive, investor-oriented setting facilitated a shift in focus for development aid policy: Greenhill, Prizzon, Rogerson (2013) note the increasing share of NTDA or non-traditional development assistance in finance for development. Apex funds and investment companies entered this space to compete for finance and play the role of credit intermediation: a process that drove the commercialisation of inclusive finance.

In addition to credit intermediation, commercial iterations of inclusive finance present an opportunity for private finance to take on the guise and role of development finance: this has been described by Van Waeyenberge (2015) as the 'private turn in development finance'. Such approaches allow for a leveraged approach to development cooperation to attract private flows, including equity stakes, through reduced exposure to risk (Van Waeyenberge 2015). Table 2 presents a typology to highlight how sources of debt and equity funds for microfinance in Pakistan are associated with various entities.

Table 2: Typology of Debt and Equity Funders for Microfinance

	Subtype	Further subtype	Definition	Example in Pakistan
Development Finance Institution/ International Financial Institution	Bilateral	None	Owned by a government to raise private capital to finance projects with development objectives.	KfW (Germany), CDC Group (United Kingdom), PROPARCO (France).
	Multilateral	None	Owned by two or more governments to finance development projects through private capital.	IFC (International Finance Corporation), ADB (Asian Development Bank)
Government	Development Programme	None	Government or other public program with development objectives.	Prime Minister's Interest Free Loans Scheme (Pakistan)
	Government Agency	None	Administration, departments, or agencies of any sovereign entity	Luxembourg Ministry of Foreign and European Affairs (Luxembourg)
	Multi /Bilateral Development Agency	None	Bilateral or multilateral aid agencies, owned by governments	JICA (Japan), DFID (United Kingdom)
	Regulator	None	Domestic central banks	State Bank of Pakistan
Financial Institution	Commercial Bank	None	Bank or other regulated financial institution where private entities are majority shareholders	United Bank Limited, HBL
	Public Bank	None	Bank or other regulated financial institution where the government is a majority shareholder.	National Bank of Pakistan, Bank of Punjab
	Microfinance Investment Intermediaries (MII)	Holding company	Provide financing and technical assistance to MFIs.	FINCA, AKAM
		MIV	Microfinance Investment Companies are independent investment entities open to multiple investors.	Triple Jump
		Other MII	Various investment entities with a large microfinance component to investment strategy.	ResponsAbility, Triodos, Acumen
Other	Private Corporation	None	Registered legal entities except government and financial institutions. Often tech companies seeking synergies.	VEON
	Individual	None	A person or persons	United International Group (Pvt) Ltd.

	Foundation	None	Non-profit corporation or other non-profit entity	Bill & Melinda Gates Foundation, Aga Khan Foundation
	NGO	None	Nongovernmental organisation	National Rural Support Programme

Adapted from Sapundzhieva (2011)

In addition to private finance and its capability to extract rents, the second framework which is that of institutional adaption, presents a useful basis to theorise the responses to regulations. These include those driven by the Basel Accords: though seeking stability, they also engender an antipathy to lending outside the corporate and government sector, especially when the latter is such a heavy borrower. This is discussed in the subsequent section. Additionally, an inequality studies framework is also a central concern of shadow financial citizenship because it relates to the reproduction of disparity and to uneven development. This is so when poorer clients face higher borrowing costs, and second, when inclusion is offered in exchange for surveillance.

A central question relating to financial exclusion in Pakistan is the role of the traditional banking sector. A conspicuous feature of the NFIS is the scant mention of traditional or commercial banks. This can be attributed to an emphasis within the NFIS, and to a considerable extent, also within the global inclusive finance movement on transactions and payments: this highlights the shifts that have occurred to make financial inclusion the most prominent development paradigm and the successor to the related movements of microfinance, and microcredit (Mader and Sabrow, 2015). These transitions have shaped the present day nature of financial citizenship.

3.1 The issue of penetration

Aside from transactions and payments, the other aspects of inclusive finance are access to savings and loans. Savings were seen as a key pillar of the microfinance movement for two reasons; they had the potential to reduce dependence on subsidies and donors by mobilising funds for on-lending; and they allowed for households to smooth consumption and build assets for collateral for future borrowing (Khandker, 1998). In his seminal article, Jonathan Murdoch notes that the subsidisation of credit skewed the incentives for microfinance providers to promote savings:

> 'Moreover, because banks were losing money so steadily on the lending-side but were amply capitalized by governments, they had little incentive to mobilize savings: deposit mobilization is costly and re-lending the deposits would just lead to greater losses. Instead, saving accounts were weighed down with restrictions and downward pressure was put on interest rates on deposits, generally to keep interest rates paid to depositors below the rates charged to borrowers. The result was that real rates on deposits fell to zero or below and savers had little incentive to build up accounts. Ultimately, little saving was generated, and money stayed under mattresses or was moved into nonfinancial assets.' (Morduch, 2000)

It is worth mentioning here that subsidies need not necessarily preclude saving: the successes of forced or involuntary savings programmes in Bangladesh (Khandker 2000) and Indonesia (Morduch 2000) exemplify how savings can reduce the social cost of subsidisation. In cases where commercial models are ascendant— as in Pakistan, where subsidies are seen as undermining sustainability — savings may be discussed in the context of deposit mobilisation. Because of the legislative structure permitting deposit taking, only one third or so of Pakistani microfinance providers offer savings products: MFBs are allowed to take deposits but MFIs are only permitted to mobilise deposits by requiring that their client place them in commercial banks (PMN, 2017).

From the perspective of data, it is difficult to get an overall view of the extent to which microfinance providers — MFBs and MFIs both — are responsible for mobilising deposits as it is not possible to identify which commercial bank deposits holders are clients of microfinance institutions. However, the newest data for MFBs illustrates success in deposit mobilisation with 2015-16 experiencing a jump of 88% in the number of depositors who rose to 15.9 million from 10.7 million in 2015: in terms of value this amounted to 41%, taking the deposit base to PKR 118 billion from PKR 60 billion a year earlier (PMN, 2017).

This surge may be attributed to the recent moves by MFBs to compete with commercial banks for deposit mobilisation, by offering double digit rates on deposits: up to 13% relative to 7% offered by commercial banks. This strategy has been facilitated by the directive, issued in late 2015 by the SBP, permitting MFBs to use the same clearing system used by commercial banks (SBP, 2015b). The outcome of this, for those banks that have opted for this tactical approach, is a decrease in cost of funds, as well as an increase in the ratio of deposits to gross loan portfolio (PMN, 2017). As a result, many MFBs have not only enhanced their efficiency but also their liquidity.

For some analysts of the 'missing middle' phenomenon this improved liquidity offers perceptible opportunities. The standard approach to the missing middle presents it as an issue of — access to and lack of — finance (World Bank, 2017). The NFIS (2015) takes a more measured stance on this, noting that according to survey data, access to finance is a less important issue for SMEs than lack of electricity, and corruption respectively. Within the perspective that finance is a crucial issue for enterprises, the SBP has been encouraging MFBs to lend to microenterprises. The objective of such a policy, like that of promoting deposit mobilisation, is to promote competition between MFBs and commercial banks. In practice, such an approach has encouraged a bifurcated banking structure.

3.2 Expensive lending

From a regulatory standpoint, microfinance banking differs from commercial banking in two ways: licensing requirements and lending requirements. The lending limit imposed on microfinance banks has been contentious — it was revised upwards in 2012 from PKR 150k to PKR 500k in order to promote enterprise lending — and there is support for either raising further or issuing separate licenses with higher lending limits to increase coverage (Aslam, 2013). Lending rates in Pakistan are not regulated by the central bank. Within the global financial inclusion industry, this is regarded as a best practice; notwithstanding concerns about exploitative and predatory lending practices, capping rates is seen as counter-productive.

> 'Unfortunately, this often hurts rather than protects the most vulnerable by shrinking poor people's access to financial services. Interest rate ceilings make it difficult or impossible for formal and semi-formal microlenders to cover their costs, driving them out of the market (or keeping them from entering in the first place).' (CGAP, 2004)

In Pakistan, high lending rates are particularly concerning in the current interest rate environment where the benchmark policy rate is hovering at a 42 year low of 5.75% (PMN, 2017). Microfinance practitioners reiterate that it is misleading to draw causal connections between benchmark interest rates and lending rates as it is operating costs — and not funding costs — that determine loan terms. These rates are primarily due to expenses such as personnel compensation, supplies, travel, depreciation of fixed assets, etc. It is thus argued that the very practice of making small loans — since that is what the poor require — entails high-interest rates because smaller loans have a higher administrative cost per dollar than do larger loans (Rosenberg et. al, 2013).

Given this, and also the fact that the alternative to microfinance is very often the unregulated money-lender Sandberg (2015) argues that it is governments, commercial banks and the international political community that should be held responsible for high-interest rates caused by credit rationing. Governments may be held responsible for a lack of direct involvement through rate subsidies and for a lack indirect involvement ‘through creating background institutions and/or making infrastructural improvements which could reduce some of the costs for MFIs’: additionally, the international political community may also be asked to share the burden for alleviating exorbitant borrowing costs (Sandberg, 2015).

Despite commercialisation — which has entailed a strong nexus with the mainstream banking sector — the financial inclusion agenda has not made convergence, between the micro and mainstream finance sectors, a priority. Although in many countries microfinance and other services offered under financial inclusion initiatives are regulated they are nevertheless distinct from and presented as an alternative to, the formal financial sector. This is clear from the CGAP emphasis on ‘unbanked’ who are excluded from the formal financial sector but offered an alternative in the form of microfinance and IT based payments systems (CGAP, 2018).

What is the potential for an easing of this separation? Recent efforts in Pakistan and elsewhere in South Asia to focus on the needs of ‘graduates’ (Shankar, 2016) are a step in this direction as they offer a shift away from lending to low income individuals; a model that relies on small loan sizes and high lending rates. Efforts in Pakistan to earmark the category described as MSEL or medium small enterprise lending (Aslam, 2013) reflect the realization that larger loan sizes are essential for bridging the gap between the microfinance and commercial banking.

> “This is too low to make a difference to the growth and expansion of MSEs. Average loan size has remained low because the mission of microfinance was believed to consist in provision of finance to low income persons rather than MSEs.” (Aslam, 2013)

Initiatives to draw microfinance banks into MSEL highlight the sense of urgency undoubtedly felt by a central bank confronted with declining — in real terms, relative to previous decades — private sector credit offtake (SBP, 2015a).

> ‘While the total assets and deposits of Pakistan’s banking sector have doubled since 2008, private sector credit to GDP has declined from 22% in 2009 to just 14.7% in June 2014. The decline in credit provided to SMEs has been particularly pronounced, falling from 16% of bank lending in 2008 to just 7% in June 2014.’ (SBP, 2015a)

Fresher data indicates that improvements have been small, with private sector credit at 16.2% in June 2017 (SBP, 2017b). This weakening and its persistence are ascribed to a number of factors. Khalid and Nadeem (2017) attribute the initial decline to knock on effects from the global crisis of 2008, which coincided with security concerns, political instability, and energy shortages in Pakistan: five years of double-digit interest rates followed, with counter-cyclical monetary policy vetoed because of parched FDI inflows and a balance of payments crisis from a feeble external sector. The outcome is the familiar scenario of an unfavourable balance of payments — necessitating IMF led demand compression and stabilization policies —eventually compromising deregulation and liberalisation by quashing market mechanisms for interest rate determination (Khalid and Nadeem, 2017).

But it was not simply exogenous factors that placed lenders, and the also macroeconomy, in this austere position. Within the broader context it may be argued that it was the liberal reform process of the 1990s — fixated with buttressing regulatory frameworks and enhancing institutional stability — that compromised financial inclusion, primarily by cost-cutting strategies that resulted in downsizing and branch closures (Khalid and Nadeem, 2017). Though the SBP was conscious of the need to keep the banking sector accessible and took regulatory steps such as preventing banks from refusing to open accounts for prospective clients; provision of free services by banks for the opening and maintenance of regular savings accounts; and, some exemptions on minimum balances; between 2004 and 2015, the total number of small accounts fell by 3.1 million (Zaidi, 2015 pp406). This is depicted in numbers by Pakistan’s position in IMF 2015 rankings of financial development: in efficiency the country is ranked 52 but in access to institutions it is 130 (Svirydzenka, 2016).

The issue of limited private sector credit offtake is brought into sharp focus when regional comparisons are made: Pakistan not only has one of the lowest proportions of adult population with access to a transaction account, but also has one of the highest ratios of currency to deposits (Khalid and Nadeem, 2017). Financial inclusion takes on particular relevance in this context, given the strong association between access to finance and credit penetration.

A key feature of liberal reforms in Pakistan has, unsurprisingly, been the rollback of the state, as evidenced by sharp reductions in government ownership of the banking sector and also the abandonment of direct, or priority lending strategies. The absence of an official push factor has made it possible for lenders to dodge the comparatively riskier prospect of SME lending. The state in Pakistan controls only 20 per cent of banking assets: this is low compared to other emerging economies — including China, India, Egypt, Sri Lanka, Vietnam and Bhutan, Brazil, Argentina, Indonesia, Bangladesh, Russia, and Turkey — where the public share ranges from 30 per cent to 50 per cent (World Bank, 2012). The policy of mandatory lending to sectors identified by the state is still practiced in a number of countries; India's priority sectors receive over 40% of bank loan portfolios; Brazil's directed lending amounts to over 50% of total credit; and in both Thailand and Indonesia, 20% of lending is allocated to SMEs (Khalid and Nadeem, 2017).

Why else have commercial banks been so lax in widening their customer base? This can be at least partially attributed to fiscal patterns: the low tax base, at less than 11% of GDP, compels the government to rely on borrowing for deficit funding (Ministry of Finance, 2017). Private businesses account for 40% of bank credit and only 0.4% of all borrowers are responsible for 65% of all bank loans (State Bank of Pakistan, 2015). In the absence of effective measures to widen and also deepen the tax base it is unlikely that commercial banks — which are currently earning heavy spreads by investing in risk-free treasury bills — will shift their focus to the private sector — but away from the corporate sector — particularly for those in lower income segments.

This 'Dominant Borrower Syndrome' is interrogated by Choudhary *et al.* (2016) who find that persistent government borrowing from commercial banks has limited the sector: the widening of interest rate spreads, lower private sector credit — despite a policy rate that has fallen by over 550 basis points over four years— and a weak transmission of monetary policy have been created by lack of impetus for credit intermediation, given an ample supply of zero-risk weighted assets in the form of government paper. This explanation, which rests on the macroeconomic assumption of crowding out, is somewhat simplistic. It is reasonable to infer that stringent capital requirements — as necessitated by the Basel framework — deterred banks from lending to the private sector, especially where high default risk was a feature of incomplete collateral and/or uncertain cash flows: this is an empirically documented tendency discussed in a shadow banking concept by Toporowski (2017). Also noteworthy here is the relationship between government borrowing and banking spreads. In developing economies the state tends to be insensitive to the cost of borrowing to finance its budget deficit when it has no recourse to other sources: this is an outcome of a shallow secondary market for lending, suggesting the need for policies to enhance domestic debt markets alongside liberal reforms (Choudhary et. al, 2016).

The issue of limited penetration in Pakistan cannot then be described in the relatively simplistic terms of either excessive government involvement, through crowding out; or the lack of it, through the absence of direct lending strategies. If inclusive finance is seen as the response to limited penetration, it may be associated here with two phenomena: (1) the effect of regulations to enhance financial stability which have made commercial banks eschew lending outside the corporate and public sector, and (2) lack of depth in domestic debt markets which has created an interest inelastic demand from the state for bank borrowing.

The shadow banking concept may be invoked here; not only has crowding out shaped the need for regulatory fragmentation but the shortcomings of market depth have positioned inclusive finance into a component of 'a vital infrastructure of the financial system that sustains debt-based funding mechanisms' (Nesvetailova, 2017, p241).

3.3 Digital dualism

While the SBP is aware of the structural issues that impede penetration, its response has been to focus on promoting financial inclusion through MSME lending to stimulate credit offtake, and branchless banking to enhance access. The latter refers to the expansion of DTAs (digital transactional accounts), based primarily on 'basic electronic payment services and stored electronic value' (SBP, 2015a): this is a shift away from more traditional forms of branchless banking which rely on OTC transactions based on cash being placed in, and eventually withdrawn from the system.

This DTA strategy for financial inclusion has been formulated given the presence of a robust national infrastructure which includes a regulatory framework, widespread mobile phone ownership, and an extensive official biometric databank. There are two drivers behind the DTA strategy. One of these is distribution. The existing infrastructure facilitates expansion of DTAs by addressing the issue of national distribution through the proximity and interconnectivity of ATM and POS machines linked to mobile phone networks: account opening procedures in such an arrangement are eased by relatively lighter regulatory requirements on KYC procedures using biometric technology. At present, the branchless banking network is thin, particularly in rural areas; the SBP observes that this problem may be overcome through the participation of third party service providers (SBP, 2015a).

Third party involvement relates to the other driver of the DTA strategy here. Within the approach described above, recruiting more third party service providers is purely an operational matter: extension of the agent network is dependent on the capability to select, recruit, train, and supervise agents, and to establish alliances with existing retail networks to manage the logistical demands of cash availability and interconnectivity. But this approach does not acknowledge the intrinsic value of data and of the digital footprints created through a combination of biometric verification and algorithmic technology. This is discussed in Gabor and Brooks (2017) as the FPD or finance-philanthropy-development nexus which uses data technology to interact with the subjects of inclusive finance so that financial institutions may 'de-risk' potential clients (Kaminska, 2015).

> "In this case, the role of the state is recast to provide 'an enabling environment' for financial capital to flow freely, while allowing the consequences of systemic risks to be transferred to consumers precariously positioned at the 'bankable frontier', while their 'digital footprints' are captured and quantified as evidence of potential income streams against which securitised loans can be made that form the basis for tomorrow's financial 'innovations'." (Kaminska, 2015).

Although this application of data technology is not yet commonplace in Pakistan, this is changing rapidly with a small number of microfinance banks already using digital transaction data as well as mobile phone/ GSMA activity for credit scoring; a practice tacitly endorsed by the relatively lighter KYC requirement for branchless banking. There is considerable space here for third party involvement, a pattern which has been facilitated by the development of a venture capital ecosystem in Pakistan. For instance, Finja, which is described as the 'technology partner & Super Agent ' for Finca Microfinance Bank's branchless banking operations has received USD 1.5 million in series A , from Vostok, Swedish investment company — headquartered in Bermuda — specializing in emerging market fintech (Chakraberty, 2017). Another example is Tez Financial Services. Headed by former Citi banker, Nadeem Hussain, Tez — translated as 'fast' in Urdu — is a part of PlanetN, a holding group which makes investments in existing companies and houses an accelerator based loosely on the principles of Y Combinator (Husain, 2016).

> 'If you allow to me to access your smartphone and carry out a risk assessment, there are 12,000 data points I can take. Let me give you the easiest one. If your contact list consists of 10 people and your friend's list consist of 1,000 people, your friend has a better credit risk profile, because, he or she is more networked than you are. The

> same goes for travel; credit risk improves with people who have a regular, as opposed to an erratic pattern, or if your phone is on 24 hours a day versus 12 hours a day, then you are a better risk. These are all data points that have been established by machine learning and algorithms. Once we launch this service and defaults happen, the machine will learn and correct the weightages we give; the algorithm learns as it goes along. The idea is to offer customers Rs 5,000 to 10,000 loans, repayable after a month and eventually after three months. All they have to do is download our app and with their consent we will be able to tell within 10 minutes whether they are eligible for a loan.' (Hussain cited in Baig, 2017)

There is more to this than what is described as 'financial intrusion' (Kaminska, 2015). This may be likened a suspension of rights to privacy associated with the absence of full financial citizenship, a feature of belonging to a class of poor borrowers who are removed — excluded — from the workings of a closed system (Gabor and Brooks, 2015). Inclusive finance thus, while countering exclusion, proffers on this class of borrowers, shadow financial citizenship.

4. Conclusion

This chapter has discussed how the inclusive finance movement relates to the framework of shadow banking. Within this discussion, attention is drawn to a fundamental contradiction of inclusive finance: the tendency to promote economic dualism by bifurcating the financial sector. This bifurcation is attributed to the tendency of inclusive finance to be closer to informal finance than to mainstream finance. So while financial inclusion strategies seek to unseat the hold of informal finance, they replace informal finance with inclusive instead of mainstream finance. As a result, dualism in finance prevails.

In the Pakistan context, this separation has much to do with the relation of financial inclusion to the agenda of privatisation, liberalisation, and deregulation. As a result, financial inclusion in Pakistan has with the support of World Bank became predominantly commercial and driven by private as well as public sources of funding, including from donor agencies in the form of blended finance. Additionally, by positioning itself to benefit from initiatives pushed by international organisations such as AFI and BTCA, as well as to comply with FATF regulations, inclusive finance in Pakistan has come to be increasingly commercially oriented, digitally distributed and heavily regulated. As a result, the industry of inclusive finance has become an attractive destination for global capital whether in the form of development assistance or private equity investment.

One outcome of this dynamic is that the model of inclusive finance, reliant on wholesale funding particularly via apex funds, is very different from the model of mainstream banking via intermediation. This distinction underlies the separation of inclusive and mainstream finance in manner similar to how, nearly three decades ago, a changing Anglo American model of banking and finance, drove financial exclusion in the United States and Britain.

The notion of shadow banking is invoked to examine this separation of banking models and identify two contexts in which inclusive finance is proffered by institutions that behave like shadow banks. In one context, inclusive finance may be seen as the 'institutional outcome of regulatory fragmentation and arbitrage'; in another context, inclusive finance is a feature of a core infrastructure that 'converts debt-based funding into income, capital, and wealth' (Nesvetailova, 2017). These are the contexts that connect inclusive finance to the political economy of shadow banking, a nexus that underlies shadow financial citizenship; because inclusive finance is incapable of offering financial citizenship to extent that mainstream, traditional banks do.

Shadow financial citizenship is thus a tool to critique financial inclusion and a departure from past critiques that focus on developmental outcomes, particularly poverty (Cull and Morduch, 2017; Duvendack et al, 2011) when inclusive finance is portrayed as a bespoke solution to tackle one particular — but extraordinarily onerous — developmental gap of the Global South. Shadow financial citizenship casts aspersions both on the novelty and efficacy of such approaches as it highlights the role of geobanking in uneven development.

5. Notes

[1] 'The popular view of informal finance is of powerful moneylenders who exploit the poor through usurious interest and unfair seizure of collateral.' (World Bank, 1989, p112)

[2] This followed the emergence of Bangladesh as an independent country in 1971.

[3] The definition of a poor person is 'an individual who has meager means of subsistence but is involved in a livelihood activity and has an ability to repay debt from an annual income (net of business expenses) up to Rs. 500,000/' (SBP, 2014)

[4] The need for the MCGF appears to have been lessened by the launch of the PMIC apex fund as mentioned in SBP (2017), which notes that the guarantee scheme successfully demonstrated the viability of microfinance for commercial lenders.

[5] Specific details of the implementation and results of the various PPAF funded projects are available at http://projects.worldbank.org/

[6] A list of acronyms containing several of the acronyms used here is available at http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf

Bibliography

Acemoglu, D. and Robinson, J. (2008), Why Nations Fail: The Origins of Power, Prosperity, and Poverty, New York: Crown.

Alliance for Financial Inclusion (2017), *2017 Maya Declaration Progress Repor*t. Accessed 12 April 2018 at https://www.afi-global.org/sites/default/files/publications/2017-09/2017_MAYA_progress%20report_digital.pdf.

Aron, J. (2017). 'Leapfrogging': a Survey of the Nature and Economic Implications of Mobile Money' (No. 2017-02). Centre for the Study of African Economies, University of Oxford.

Aslam, A., (2013), 'Moving Towards Micro and Small Enterprise Lending Opportunities and Challenges', accessed 12 April 2018 at http://www.microfinanceconnect.info.

Baig, M. A. (2017), 'Riding the digital wave'. Aurora. Jul-Aug 2017, accessed 12 April 2018 at https://aurora.dawn.com/news/1142150.

Bateman, M., & Chang, H. J. (2012), 'Microfinance and the Illusion of Development: From Hubris to Nemesis in Thirty Years', *World Economic Review,* 2012(1).

Binswanger, H.P. and Khandker, S.R., (1995) 'The impact of formal finance on the rural economy of India', *The Journal of Development Studies*, **32**(2), pp.234-262

Bonizzi, B., Laskaridis, C. and Toporowski, J., (2015), 'EU Development Policy And The Promotion Of The Financial Sector' (No. wpaper120). Financialisation, Economy, Society & Sustainable Development (FESSUD) Project.

Bouman, F.J.,1(990) 'INFORMAL RURAL FINANCE An Aladdin's lamp of information'. *Sociologia ruralis*, **30**(2), pp.155-173.

Burki, A.A. and Ahmad, S., (2010), 'Bank governance changes in Pakistan: Is there a performance effect?' *Journal of Economics and Business*, **62**(2), pp.129-146.

Center for Financial Inclusion, (2013), *Forty Countries (and Counting) Committed to the Maya Declaration*, accessed on 12 April 2018 from https://cfi-blog.org/2013/08/29/forty-countries-and-counting-committed-to-the-maya-declaration/.

CGAP (2018), *Who are the 2 Billion Unbanked Adults Globally?*, accessed 18 Mar 2018 from http://www.cgap.org/about/faq/who-are-2-billion-unbanked-adults-globally.

Chakraberty, S. (2018), *Fintech startup Finja breaks new ground in Pakistan with $1.5m series A funding*. Tech in Asia. 18 Oct 2017. Accessed 18 Mar 2018 from https://www.techinasia.com/finja.

Chandavarkar, A., (1985) 'The financial pull of urban areas in LDCs' *Finance and Development*, **22**(2), p.24.

Choudhary, M.A., Khan, S., Pasha, F. and Rehman, M., (2016), 'The dominant borrower syndrome', *Applied Economics*, **48**(49), pp.4773-4782.

Craig, T., and Hussain, S. (2015) *Pakistan's mobile phone owners told: be fingerprinted or lose your sim card*. The Guardian 03 Mar 2015. Accessed 18 Mar 2018 from https://www.theguardian.com/world/2015/mar/03/pakistan-fingerprint-mobile-phone-users

Cull, R. and Morduch, J., (2017), *Microfinance and economic development.* World Bank. Accessed 18 Mar 2018 from https://responsiblefinanceforum.org/wp-content/uploads/2017/12/microfinance.pdf

Drake, P.J., (1980), *Money, finance, and development*. New York: Wiley.

Duvendack M, Palmer-Jones R, Copestake JG, Hooper L, Loke Y, Rao N (2011), 'What is the evidence of the impact of microfinance on the well-being of poor people?' London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

Dymski, G.A., (2005), 'Financial globalization, social exclusion and financial crisis' *International Review of Applied Economics*, **19**(4), pp.439-457.

FATF. 2018. *Who we are.* accessed on 12 April 2018 from http://www.fatf-gafi.org/about/

Fischer, A. (1994), 'Banking On the Edge: Towards an Open Ended Interpretation of Informal Finance in the Third World' thesis for Masters of Arts, Economics Department McGill University, Montreal.

FSB (2011) *Shadow Banking: Scoping the Issues* Background Note, Basel, Switzerland, April 12, accessed on 12 April 2018 from http://www.fsb.org/wp-content/uploads/r_110412a.pdf

Gabor, D. and Brooks, S., (2017), 'The digital revolution in financial inclusion: international development in the fintech era' *New Political Economy*, **22**(4), pp.423-436.

Geertz, C., (1962), 'The rotating credit association: A" middle rung" in development', *Economic development and cultural change*, **10**(3), pp.241-263

Ghosh, S., Gonzalez del Mazo, I. and Ötker-Robe, İ., (2012) *Chasing the shadows: How significant is shadow banking in emerging markets?* World Bank, accessed on 12 April 2018 https://openknowledge.worldbank.org/handle/10986/17088

Greenhill, R., Prizzon, A. and Rogerson, A., (2016), 'The age of choice: developing countries in the new aid landscape' , in Klingebiel, Stephan, Mahn, Timo, Negre, Mario (Eds.) *The Fragmentation of Aid* London: Palgrave Macmillan, (pp. 137-151),

Hanif, M.N., (2002), *Restructuring of Financial Sector in Pakistan*, accessed on 12 April 2018 http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN026320.pdf

Helgadóttir, O., (2016), 'Banking upside down: the implicit politics of shadow banking expertise', *Review of International Political Economy*, **23**(6), pp.915-940

Helms, B. and Reille, X., (2004), *Interest rate ceilings and microfinance: The story so far*. Consultative group to assist the poorest (CGAP), accessed on 12 April 2018: https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Interest-Rate-Ceilings-and-Microfinance-The-Story-So-Far-Sep-2004.pdf

Husain, O. (2016) *He started up at 49 and soon made millions. Now he's investing it all into startups*. Tech in Asia. 28 Sep 2016, accessed on 12 April 2018 from https://www.techinasia.com/nadeem-hussain-investor-entrepreneur-pakistan

Irfan, M., Arif, G., Ali, S. and Nazli, H., (1999), 'The Structure of Informal Credit Market in Pakistan', (No. 1999: 168). Pakistan Institute of Development Economics

Kaminska, I. (2015), *When Financial Inclusion Stands for Financial Intrusion*, FT Alphaville, Financial Times, 31 July, accessed on 12 April 2018 from http://ftalphaville.ft.com/2015/07/31/2135943/when-financial-inclusion-stands-for-financial-intrusion/

Karnani, A., (2009), 'Romanticising the poor harms the poor', *Journal of International Development*, **21**(1), pp.76-86.

Kemal, A.A., (2018), 'Mobile banking in the government-to-person payment sector for financial inclusion in Pakistan', *Information Technology for Development*, pp.1-28.

Khalid A. and Nadeem, T. (2017), 'Bank Credit to Private Sector: A Critical Review in the Context of Financial Sector', SBP Staff Notes 03/17. State Bank of Pakistan. Available at http://www.sbp.org.pk/publications/staff-notes/BankingReforms.pdf. [Accessed 12 April 2018]

Khan, F., (2010), 'The limits of success? NGOs, microfinance and economic development in Pakistan's Northern Areas', *Journal of Asian Public Policy*, **3**(1), pp.53-70

Khandker, S.R., (1998), 'Fighting poverty with microcredit: experience in Bangladesh', New York: Oxford University Press.

Khandker, S.R., (2000), 'Savings, informal borrowing, and microfinance', *The Bangladesh Development Studies* **Vol. 26**, No. 2/3, pp.49-78.

Kohli, R., (1997), ‘Directed Credit and Financial Reform’, *Economic and Political Weekly,* **32**(42), 2667-2676

Kurtz, D., (1973), ‘The rotating credit association: an adaptation to poverty’ *Human Organization*, **32**(1), pp.49-58.

Lewis, W. A. (1954). ‘Economic development with unlimited supplies of labour’. *The Manchester School*, **22**(2), 139-191.

Leyshon, A. and Thrift, N., (1995), ‘Geographies of financial exclusion: financial abandonment in Britain and the United States’ *TRANSACTIONS-INSTITUTE OF BRITISH GEOGRAPHERS*, **20**, pp.312-312.

Leyshon, A., & Thrift, N. (1993). The restructuring of the UK financial services industry in the 1990s: a reversal of fortune?. *Journal of Rural Studies*, *9*(3), 223-241.

Leyshon, A. (2009) ‘Financial exclusion’ in R. Kitchen and N. Thrift (eds) *International Encyclopaedia of Human Geography*, Oxford: Elsevier, 153-158.

Lyman, T,, Scharder, L, Tomilova O., (2015), *Inclusive Finance and Shadow Banking: Worlds Apart or Worlds Converging?* CGAP Brief, accessed on 12 April 2018 from https://www.cgap.org/sites/default/files/Brief-Inclusive-Finance-and-Shadow-Banking-Sept-2015.pdf

Mader, P. and Sabrow, S., (2015), ‘All Myth and Ceremony? Examining the Causes and Logic of the Mission Shift in Microfinance from Microenterprise Credit to Financial Inclusion’, *Forum for Social Economics* July (pp. 1-27). Routledge.

Malik, T., (2014), *Technology in the service of development: The NADRA story*. Essay, Center for Global Development, Washington (CGDev), accessed on 12 April 2018 https://www.cgdev.org/sites/default/files/CGD-Essay-Malik_NADRA-Story_0.pdf.

Manig, W., (1996), ‘The importance of the informal financial market for rural development financing in developing countries: the example of Pakistan’ *The Pakistan development review*, Oct 1:229-39

Ministry of Finance, 2017. *Pakistan Economic Survey 2016-17*. Pakistan, accessed on 12 April 2018 from http://www.finance.gov.pk/survey_1617.html

Morduch, J., (2000), ‘The microfinance schism’ *World development*, **28**(4), pp.617-629.

Nesvetailova, A. (2017), ‘Conclusion: shadow banking into the limelight’, in Nesvetailova, A. ed *Shadow Banking: Scope, Origins and Theories*. Abingdon: Routledge ,p.214

OECD. 2018, *Making Blended Finance Work for the Sustainable Development Goals*, OECD Publishing, Paris. Available at http://dx.doi.org/10.1787/9789264288768-en. [Accessed 12 April 2018]

PMIC. (2017), *Who We Are*, accessed on 12 April 2018 from http://pmic.pk/who-we-are/

PMN. (2017), *Annual Report - 2016-17,* accessed on 12 April 2018 from http://www.microfinanceconnect.info/.

Prahlad, C.K., (2005), ‘The fortune at the bottom of the pyramid: Eradicating poverty through profits’, *New*

Delhi, India: Wharton School.

Rashid, N. (2015), *The Promise of Mobile Money in Pakistan*, accessed on 12 April 2018 from http://www.cgap.org/blog/promise-mobile-money-pakistan

Romero, M.J., (2016), 'Development Finance Takes 'Private Turn': Implications and Challenges Ahead', *Development*, **59**(1), pp.59-65.

Rosenberg, R., Gaul, S., Ford, W. and Tomilova, O., (2013) 'Microcredit interest rates and their determinants: 2004–2011' in Kohn (D) ed. *Microfinance 3.0* (pp. 69-104). Springer-Verlag Berlin Heidelberg.

Roy, T., (2016), 'The monsoon and the market for money in late-colonial India', *Enterprise & Society*, **17**(2), pp.324-357.

Samans, R., (2016), 'Blending public and private funds for sustainable development' Development Co-operation Report, pp.67-82.

Sandberg, J., (2015), 'What's wrong with exorbitant interest rates on microloans' in Sorrel, T. and Cabrera, L. (eds) *Microfinance, rights and global justice*, pp.129-144. Cambridge University Press

Sapuhdhieva, P. (2011), *Funding Microfinance- a Focus on Debt Financing*, MicroBanking Bulletin, accessed on 12 April 2018 from https://www.themix.org/

SBP (2017a), *AC&MFD Circular No. 01 0f 2017*, accessed 12 April 2018 at http://www.sbp.org.pk/acd/2017/C1.htm.

SBP (2017b), *Quarterly Performance Review of the Banking Sector (April-June, 2017)*, accessed on 12 April 2018 from http://www.sbp.org.pk/publications/q_reviews/2017/Apr-Jun.pdf

SBP (2016), *Origins*, accessed on 12 April 2018 from http://www.sbp.org.pk/about/history/Origins.pdf

SBP (2015a), *National Financial Inclusion Strategy 2015*, accessed on 12 April 2018 from http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf

SBP (2015b), *Membership of Microfinance Banks (MFBs) for Clearing House*, accessed on 12 April 2018 from http://sbp.org.pk/psd/2015/C2.htm

SBP (2014), *Prudential Regulations for Microfinance Banks*, accessed on 12 April 2018 from http://www.sbp.org.pk/acd/2014/C3-Annex.pdf

SBP (2008) *About Financial Inclusion*, accessed on 12 April 2018 from http://www.sbp.org.pk/MFD/FIP/inclusion.htm

SBP (2006). *Financial Stability Review 2006*, accessed on 12 April 2018 from http://www.sbp.org.pk/fsr/2006/English/Microfinance.pdf

Shankar, S., (2016), 'Bridging the" missing middle" between microfinance and small and medium-sized enterprise finance in South Asia' (No. 587). ADBI Working Paper Series.

Stuart, G. (2015), *Government to Person Transfers: On-Ramp to Financial Inclusion?* Centre for Financial

Inclusion, accessed on 12 April 2018 from http://www.centerforfinancialinclusion.org/storage/documents/Government_to_Person_Transfers.pdf

Svirydzenka, K., (2016), *Introducing a new broad-based index of financial development*. International Monetary Fund, accessed on 12 April 2018 from https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Introducing-a-New-Broad-based-Index-of-Financial-Development-43621

Taylor, M., (2012), 'The antinomies of 'financial inclusion': debt, distress and the workings of Indian microfinance', *Journal of Agrarian Change*, **12**(4), pp.601-610.

Toporowski, J., (2017), 'Why overcapitalisation drives banks into the shadows' in Nesvetailova, A. ed *Shadow Banking: Scope, Origins and Theories*. Abingdon: Routledge ,p.181

Van Waeyenberge, E., (2016), 'The private turn in development finance' Financialisation, Economy, Society & Sustainable Development (FESSUD) Project.

World Bank, (2005), *Pakistan Poverty Alleviation Fund*, accessed on 12 April 2018 from http://siteresources.worldbank.org/INTPAKISTAN/Resources/PPAF1.pdf

World Bank. (2012), *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*, accessed on 12 April 2018 from https://openknowledge.worldbank.org/handle/10986/11848.

Zaidi, S. A. (2015) 'Issues in Pakistan's Economy: A Political Economy Perspective', Karachi: Oxford University Press.

Zaidi, A., (2001) *From the Lane to the City: The Impact of the Orangi Pilot Project's Low Cost Sanitation Model*, WaterAid London, accessed on 12 April 2018 from http://washtest.wateraid.org/publications/from-the-lane-to-the-city-the-impact-of-the-orangi-pilot-projects-low-cost-sanitation