The war on cash that is currently being waged in India and other developing countries is the culmination of a "financial inclusion"-campaign originating in the US in the 1990s. The purported goal and the US institutions pushing the agenda are the same as in two earlier financial-inclusion-drives, which have been thoroughly discredited: the subprime mortgage banking frenzy in the US and the microcredit-hype around Muhammad Yunus and his Grameen Bank.

Indian Prime Minister Modi initially justified the hardship associated with the sudden banning of the two largest and most important banknotes by claiming that it would deal a fatal blow to corruption, money laundering and the financing of terrorism. However, it soon became clear that the measure was mostly useless on that account and in many respects might even have made matters worse. PM Modi and the backers of demonetization seamlessly switched to financial inclusion and digitalization of the economy as the purported goals, claiming that it would do wonders in modernizing the economy, empowering women, overcoming inequality and pushing growth to a new level. Such wildly exaggerated promises of the benefits of financial inclusion and the institutions which are spreading such promises form the hidden link between the current war on cash in India to the subprime mortgage scandal in the US and to the microcredit disaster in poor countries.

Twice discredited, pushed a third time

When US financial institutions started to lend to just anybody to buy a house, their cheerleaders claimed that this was democratizing housing, that it would end the exclusion of disadvantaged groups from the housing market. Subprime mortgage lending was a Ponzi scheme, which fed itself for many years, as vast new credit flowing into the housing market was driving up house prices, creating valuation gains for buyers, which allowed them to service even more new debt. When the valuation gains ended, because not enough new borrowers and buyers could be found any more, millions of borrowers lost their houses and everything else and ended up more excluded than ever. Bank managers made billions in inflated salaries and stock options on the back of this and the taxpayer picked up the bill for saving failing banks.

At the same time, another Ponzi scheme was going on in poor parts of the rest of the world, also under the guise of poverty alleviation and the fight against financial exclusion. That other Ponzi scheme was called microcredit. It took only a year or so longer than the subprime bubble until it crashed. It did so with a lot less uproar, as only poor people in poor countries were affected. Again, many investors and managers of – this time often supposedly non-profit - organizations got rich on the scheme, while their poor borrowers ended up poorer than ever. “Gentle lender” Compartamos from Mexico, Latin America’s largest microfinance institution can serve as an example of the fraud that is financial inclusion at commercial terms. Originally a non-profit that turned into a for-profit bank, it earned their owners a return on equity of more than 50 percent by lending at annual interest rates near 100 percent. Co-CEO Carlos Danel told Bloomberg in response to criticism regarding ruthless lending practices:

"A lot of people have suggested that financial inclusion can be a poverty alleviation tool. We're not out to prove that. We're out to provide financial services as opportunities to these clients, realizing that some people might make better use of them than others."

When the bank went on the stock market in an IPO in 2007, the founder cashed in 400 times his initial investment. Working with similarly high, "sustainable" interest rates, FINCA, another large micro-lender based in Washington, and still a not-for-profit, awarded its CEO a salary in 2014 of 1.4 million dollars. By the end of that year, the group had amassed a net value of 300 million dollars from profits squeezed out from their poor borrowers.

A personified link

Few people better personify the tight link that connects microcredit, the US subprime housing scandal and the current global campaign for financial inclusion than Indian finance professional Mona Kachhwaha, an Investment Director at Caspian Impact Investment Advisors. This firm invests debt and equity capital "into high quality enterprises in India, with the intent to generate social and/or environmental impact alongside a competitive financial return." Her CV at Caspian praises her achievements:

"As the fund manager for the India Financial Inclusion Fund, she has spearheaded the ***fund's investments in financial inclusion and affordable housing****. Until 2007 she was with* ***Citibank*** *(1994-2007) where she worked as the risk head for* ***mortgage business*** *and as business head of* ***microfinance business in India****. She was instrumental in striking large asset relationships, which led to significant growth in Citibank's microfinance asset base in subsequent years."*

As risk head for mortgage business it was presumably her job to calculate (down) the risk of giving mortgage credit to people with low and instable incomes and sell on those crappy mortgages in securitized form. As business head of microfinance in India her job would have been to help push credit at high interest onto unsuspecting Indian poor. She did it for Citigroup, an important player in today's financial inclusion campaign and also the bank which was fined in 2013 together with a number of other banks for a total of 9.3b bn dollars for abusing the rights of debtors while foreclosing their homes and which in 2014 paid 14 billion dollars to settle charges of having sold absurdly overrated securitized mortgages to unsuspecting investors.

In 2008 a round of destructive 'microfinance meltdowns' began in Morocco, Nicaragua and Pakistan. Over-indebted clients defaulted en masse, because they could not continue taking out new micro-loans to service old ones. The most devastating microfinance collapse started in late 2010 in the Indian state of Andhra Pradesh. There was a suicide epidemic among over-indebted poor people and the whole microcredit industry collapsed. This is recognized in the highest policy circles, though very rarely talked about there. Here is an exception: Jens Weidmann, President of Deutsche Bundesbank, said in a recent speech about financial inclusion:

"Expanding access to financial services - especially to credit - at too fast a pace and with too little control exposes economies to stability risks, and households to the risk of over-indebtedness. The Indian microfinance crisis in 2010 showed us what can happen if too many households have access to credit despite being subprime borrowers."

However, as if nothing had happened, Mona Kachhwaha is continuing with her work of "helping" the poor, this time by spearheading the Financial Inclusion Fund's "investments" in financial inclusion and affordable housing in India. This is symptomatic for the institutions which drive the financial inclusion campaign. They made the same grandiose promises about poverty alleviation before with regards to microcredit, but never admitted the abject failure of this approach. They just changed the wording to “financial inclusion” and pushed ahead.

False claims

The World Bank in Washington has been a key promoter of (commercial) microcredit as a tool to end poverty. The Bank’s own Independent Evaluation Office concluded (p. XI) that it is “neither certain nor well understood” that financial inclusion would do anything against poverty, “given the evidence that, in spite of modest benefits, the promise of microfinance pulling millions out of poverty has not been fulfilled”. As if nothing had happened, the World Bank continues to falsely claim on its “Financial Inclusion” webpage that, “Financial inclusion is a key enabler to reducing poverty and boosting prosperity.” (Hat tip to Kvangraven and Santos) A review of all the studies that have been quoted to support the claims of a big positive impact of microfinance on poverty was published in 2011 by the British Department for International Development. It found all of them severely defective. However, even the British development agency UKaid, whose logo is on the front-page of this report, is continuing to take part in the “financial inclusion”-campaign with its unfounded and largely disproven claim that it would help the poor a lot. Noentheless, World Bank President Jim Yong Kim said in 2014:

“Financial inclusion has moved up the global reform agenda and become a topic of great interest […]. For the World Bank Group, financial inclusion represents a core topic, given its implications for reducing poverty and boosting shared prosperity. The increased emphasis on financial inclusion reflects a growing realization of its potentially transformative power to accelerate development gains.” (World Bank 2014, xi)

Ignoble promises of a Noble Prize winner

Muhammad Yunus was awarded the Nobel Peace Prize on his grandiose promise to eradicate poverty within a generation by giving poor people access to debt and financial services. A modest claim that financial inclusion can do some good is sound. If the very poor get access to a secure way of saving and storing money, they can be a bit better off. It also helps them, if they can get credit at affordable (!) rates to get through times of temporary (!) money shortage. For this to do good, the poor would have to be offered these financial services at moderate, subsidized rates. Poor as they are, they are always at the edge of falling into a debt-trap, if they take credit at the high interest-rates commensurate with their low creditworthiness. Subsidized rates, however, is exactly what the US-institutions driving the campaign for financial inclusion successfully wanted to get rid of.

The outlandish claims of ending poverty by giving poor people a chance to become indebted, was based on a third, much less convincing argument. It says that poor people simply lack the capital to set free their innate entrepreneurial spirit, which would pull them out of poverty. This is a severely flawed argument. The very poor tend to be undereducated people with none of the particular skills they would need to run a successful business of any scale. There will be the occasional person that has enough genius or luck to make it out of poverty that way. As a grand scheme to eradicate poverty, the idea is nonsensical.

As Milford Bateman and Ha-Joon Chang note, Africa and India already have more "survivalist" microenterprises than any other region and at the same time a huge poverty problem. Their problem is the dearth of growing small and medium-sized companies which would provide jobs. Rather than nurturing this vital sector, the microcredit-approach aims at further increasing the army of low-productivity single-person or single-family micro-enterprises. However, another shoemaker or food stall in the region will not add to productivity and income potential in the region. It will mostly take away business from pre-existing shoemakers and food stalls, which will have to lower prices in order to retain customers.

From microcredit to financial inclusion

Mona Kachhwaha laid out the line of argument that would be used by promoters of financial inclusion in the face of evidence that the grandiose promises of microfinance have been proven false. Her excuse comes in her comment to an early critique of microfinance by Arneel Karnani.

"The business of microfinance is to provide to the disenfranchised the opportunity to borrow, save, secure and transfer funds, i.e. ***the complete set of financial services****, so that they cease to be disenfranchised. Unless and until the impact of other services kicks in to the same extent,* ***we have no grounds to doubt the hypothesis*** *that financial inclusion will lead to greater chances of economic development of those who are poor and vulnerable…."*

This is the new PR-approach that the microfinance mafia has been employing ever since microcredit was discredited: Deemphasize credit. Talk about all the good that access to a whole range of financial services would do to the poor. Don't try to prove anything, and nobody will be able to pick apart your claims. Put the onus on critics, to prove that your high-flying talk about helping the poor while sustainably making money, is just a cynical ruse to hide your true intentions. Hide obvious facts like the following behind a deluge of lofty goals and do-good-talk that nobody could object to:

"Both in Sub-Saharan Africa and North Africa, ***the most frequently cited reason for not having a formal account is lack of enough money to use one.*** *This is the response given by more than 80% of adults without a formal account."* (Quote from World Bank report on "Financial Inclusion in Africa")

That is: distract attention from the obvious fact that storing and investing money is not and cannot be the biggest problem of those who do not have money.

Key members of the financial inclusion mafia

In 2015, USAID, the US-government's development-assistance institution, entered into a partnership with the Indian finance ministry with the goal of promoting financial inclusion in India and globally, by pushing back the use of cash and promoting digital payments. USAID brought into this partnership a host of other companies and institutions, including the World Bank, the Bill-Gates-sponsored Better Than Cash Alliance, The Gates-sponsored Center for Effective Global Action (CEGA), Visa, MasterCard, PayPal, and a host of microfinance and financial institutions and ITC companies from the US and India.

Lets have a look at the activities of Citi, USAID, World Bank and the Bill & Melinda Gates Foundation in the field of “financial inclusion”.

Bill & Melinda Gates Foundation

The Gates Foundation had – according to Bill Gates – already started working closely with the Reserve Bank of India (RBI) in 2012 on transforming India into a cash-free society by 2018.

Speaking for the Bill & Melinda Gates Foundation at the “Financial Inclusion Forum” in Washington, organized by the Treasury Department and USAID on December 1, 2015, Bill Gates said (min 17):

“Full digitalization of the economy may happen in developing countries faster than anywhere else. It is certainly our goal to make it happen in the next three years in the large developing countries. We have very significant efforts in Nigeria, Pakistan and India, (and) a dozen other countries, where we work with the central banks to make sure that the right kind of transaction switch is available…(min 20)…We worked directly with the central bank there (India) over the last three years...”

RSB board member Nachiket Mor, is head of Bill & Melinda Gates Foundation India.

Citi

We have already seen that Citibank has been very much involved in the subprime lending scheme in the US and in the microcredit-business in developing countries. Apparently, they have not done enough for the poor, yet, and have to keep pushing for financial inclusion via digital finance in India and elsewhere. Citi's former CEO Vikram Pandit even spared his valuable time to serve as a member of the Mor-committee to promote financial inclusion in rural India, a committee set up by the Reserve Bank of India under Chicago economist Raghuram Rajan in 2013.

The chief economist of Citi, Wim Buiter, is most famous for being an early and ardent supporter of abolishing cash in favor of digital finance. He has been the thesis advisor of the current Governor of the RBI, Urjit Patel. Patel co-authored several academic papers with Buiter before overseeing the recent banning of banknotes and making sure that it would result in a very extended cash shortage.

Consultative Group to Assist the Poorest 1995

In 1995 the Consultative Group to Assist the Poores, was founded in order to help create the hype around the microcredit-idea of Muhammad Yunus, who was still fairly obscure at that time. (It was soon quietly renamed in Consultative Group to Assist the Poor.) Key members are the World Bank, USAID, Citi Foundation, Bill & Melinda Gates Foundation, Master Card, Omidyar Network (PayPal), and the United Nation Capital Development Fund.

One goal was to switch over the microfinance industry from its original modus operandi of giving subsidized credit to the poor to the “sustainable” business model of lending at interest rates that would yield a profit. In the words of the CGAP mission statement (edition 1999) this reads as:

"CGAP's goal is to significantly expand very poor people's access to quality financial services from ***sustainable*** *or potentially sustainable microfinance institutions."*

Their successful endeavor opened up the field for an onslaught of profiteering by commercial companies and by ostensibly not-for-profit organizations, on the basis of pushing extremely high-interest loans on poor people. Even Yunus' Grameen Bank, upon having received the Nobel Peace Prize jointly with Yunus, changed its business model from giving subsidized credit to "sustainable" lending at high rates.

This same Consultative Group to Assist the Poor, which has pushed this business model - that was so disastrous for the poor and so lucrative for everybody else involved - is still active today, promoting financial inclusion with very much the same arguments as if nothing had happened. They just like to stick a "responsible" in front of the lending or finance they are promoting, to retroactively distance themselves from all that irresponsible lending that could maybe also have occurred and might – theoretically – still be occurring. They have adapted their promise subtly. They don't promise a cure to eradicate poverty any more, but rather "to increase access to the financial services the poor need to improve their lives." Read: If the poor don't manage to improve their lives, even with access to all these wonderful financial services at "sustainable" interest rates and fees, nothing can be done for them.

Alliance for Financial Inclusion 2008

In 2008 the Bill & Melinda Gates Foundation created and paid for an official leg of CGAP, the Alliance for Financial Inclusion (AFI) "to develop and promote evidence-based policy solutions that improve the lives of the poor through the power of financial inclusion." The Gates Foundation seems to still be the most important sponsor of AFI, together with the Omidyar Network (PayPal). AFI is a forum for central bankers and financial regulators from currently about 100 developing countries. It offers useful advice and knowledge exchange in the field of financial development and transports with that the agenda of pushing back cash use in favor of payments intermediated by the likes of PayPal (Omidyar),Visa and MasterCard. Visa and Matercard are "Public-Private Dialogue Partners" (PPD) of AFI. They graciously provide information on their (commercial) preferences and in exchange get a chance to talk to regulators. I am not making this up:

"Each AFI PPD Partner contributes unique knowledge, resources and expertise to support AFI programs and activities. In turn, they benefit from a variety of offerings that promote frank dialogue and knowledge sharing on financial inclusion with regulators and policymakers in the AFI Network."

"Frank dialogue" with regulators as a reward to companies for information? Is it just me who is thinking "corruption"?

The Better Than Cash Alliance 2012

The Gates Foundation, Omidyar Network (PayPal) and the famously good-doing bank Citi were again involved as a founding member in 2012 when the Better Than Cash Alliance was set up, together with some friends from the Consultative Group to Assist the Poor, namely USAID, MasterCard, Visa. The United Nations Capital Development Fund is graciously providing the secretariat (after receiving very generous grants from the Gates Foundation and the MasterCard Foundation), allowing the Alliance to falsely claim that they are UN-based. Grameen Foundation has joined the Alliance, further underlining the link from microfinance to the war against cash. The Better Than Cash Alliance (BTCA) claims to "reduce poverty and drive inclusive growth by accelerating the transition from cash to digital payments." They have so far not made a serious effort to explain how you improve people's lives and reduce poverty by prying out of their hands an instrument like cash that they are using a lot, because it makes it so easy to be financially included. If BTCA wanted to just give them an additional option, one could seriously consider their argument. However, looking around on their website leaves little doubt that their name is their program. They support and applaud all measures that actively push back cash.

The G20 co-opted

For about seven years now, these US-organizations, which have been responsible for the microcredit financial inclusion disaster and some of which have been intimately involved in the suprime mortgage financial inclusion scam, have been elevated to the status of official policy partners of the G20 governments. In a public-private-partnership they are forming a Global Partnership for Financial Inclusion. The Consultative Group to Assist the Poor, the Better Than Cash Alliance and the Alliance for Financial Inclusion have together drafted the financial inclusion policy of the G20 and have been tasked by the G20 to implement it. Governments don't seem to have any problem with the fact that almost all the members of these institutions have a strong direct or indirect business interest in pushing back cash and promoting the expansion of digital finance.

The justification that the G20 gives for its Bill-Gates- and-Citi-inspired focus on financial inclusion draws directly from the hypocritical World-Bank-wording that ignores – despite all better knowledge – the failings of past promises of financial inclusion:

"The World Bank (…) indicates that 2.5 billion adults globally—about half the total adult population—have no access to financial services delivered by regulated financial institutions. (…) Instead, those in developing economies must depend on informal mechanisms for loans, savings and to protect themselves against risks such as uneven cash flows, seasonal incomes and unplanned needs such as sickness. (…) The absence of financial inclusion can also contribute to slower economic growth and persistent income inequality. "

Let us remind the World Bank and the G20 of the fact published in a World-Bank-publication that 80 percent of Africans without a bank account say that they have no account because they have no money. You also need money to insure yourself. Forcing bank accounts onto poor people is no substitute for an effective policy to alleviate poverty.

All roads lead to Bill Gates

In 2014, the World Bank and the (Gates-funded) Better Than Cash Alliance presented a joint report to the G20, in which they summarized (favorable) scientific findings on financial inclusion from the economics literature. If you click through from the thank you notes of the authors to the websites of the institutions that paid for their research and to the list of financiers of these institutions, it turns out that there is hardly any research on financial inclusion that is not paid for by Bill Gates and his self-interested friends.

There is the academic institute Poverty Action Lab J-Pal at the Massachusetts Institute of Technologie (MIT) led by prominent experimental economist Esther Duflo, with featured Partner Bill & Melinda Gates Foundation and further partner Ford Foundation (member of the Better Than Cash Alliance) as well as various microfinance institutions and banks.

There is the nonprofit Innovation for Poverty Action **(IPA)** led by Esther's sister Annie Duflo, whom the funders (according to the annual report) have been providing 39 million in grants and contracts in 2015. Funders include the Bill & Melinda Gates Foundation, Citi Foundation, Ford Foundation, USAID, World Bank, Omidyar Network (PayPal) and an array of Wall Street financial Institutions.

There also is the Center for Effective Global Action (CEGA) with its partners: Bill & Melinda Gates Foundation, World Bank, USAID and a board which has been recruited from Wall Street, Silicon Valley, J-Pal, and IPA.

Citi bankrolls the **Institute for Business in the Global Context** at Tufts University. Together with the Reserve Bank of India's National Institute of Bank Management, this Citi-sponsored institute published an influential 2014 report on "The cost of cash in India" besides other such cost-of-cash-studies on other countries.

The Indian research institute **IFMR** has an important role in the current drive to digitize finance in India. It is home to Catalyst, the joint venture of USAID, the Indian finance ministry and a host of financial and tech firms, promoting and wanting to profit from pushing back cash. IFMR has as funders USAID, the Bill & Melinda Gates Foundation, the Ford Foundation and Citi. IFMR is a member of the "Alliance for Financial inclusion", which is financed by the Gates Foundation.

Last but not least, there is fhe **Consortium on Financial Systems and Poverty (CFSP),** "a private research organization" based at the University of Chicago, whose "goal is to reduce poverty through helping to identify, define and develop more efficient financial systems". CFSP was established in 2009 by a grant to the University of Chicago from The Bill & Melinda Gates Foundation.

The list could be extended.

Conclusion

The financial and tech-institutions that stand to profit from pushing digital finance under the guise of financial inclusion are bankrolling basically all the (severely defective, be reminded) research which they are using to promote their agenda in front of international institutions and the G20 governments. The G20 have allowed these self-interested lobbies to draft the official G20 financial inclusion agenda and have charged them with implementing this official agenda.

This is highly corrupt, even though it may be legal.

More on the US-influence behind Indian demonetisation:

A well-kept open secret: Washington is behind India’s brutal experiment of abolishing most cash

More evidence of early US involvement in Indian demonetisation

Catalyst’s Malick, unhappy with report on US influence on India's demonetisation, hits back with false claim

A $500 bn pot of gold: How Boston Consulting and Google pushed Modi to end the era of cash

How India became Bill Gates' guinea pig: A conspiracy as recounted by the main actors

Indian ministers and CEOs flock to the US to report to the digital colonizers

[26.3.17]