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Trends and Analysis

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Behind the fintech hype

By increasing accessibility of financial services, financial technology – or fintech – is said to hold out the promise of delivering poverty reduction and economic development to communities across the Global South. But as profit-driven investors and corporations scramble to get in on the fintech action, the reality may prove to be rather less rosy.

.... ALSO IN THIS ISSUE ....

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THIRD WORLD ECONOMICS
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GC chair calls for "strategic pause" in talks on WTO pandemic response

With member states still sharply divided over the measures the WTO should take to address the pandemic, the chair of the organization's governing General Council has called for a "strategic pause" in the talks on this issue.

by D. Ravi Kanth

GENEVA: The chair of the WTO's General Council (GC), Ambassador Dacio Castillo from Honduras, on 4 February called for a "strategic pause" in the discussions on the WTO's response to the pandemic, following persistent differences among members.

At an informal open-ended meeting on 4 February, the GC chair provided an account of the various meetings on the WTO's response to the pandemic held through a "cocktail" approach involving consultations with delegations "in different configurations."

The chair had held meetings with a small group of members on 1 and 3 February.

The aim of these meetings, he said, "was to discuss shared objectives and principles that Members wished to see reflected under each theme/area; identify whether those had already been reflected in the Facilitator's Text; and if not, how the text could be improved."

David Walker, the then New Zealand ambassador who was facilitating the talks on the WTO response to the pandemic, had put forward a draft text late last year.

Castillo said "divergent perspectives in Members' positions were evident." He said that he convened meetings with "a second Representative Group" on 3 February on "theme-by-theme discussion, [and] it was evident that delegations needed more time to engage with each other first, in different configurations to work through these differing perspectives, before reverting to the Representative Group discussions."

In other words, he said, "a strategic pause is needed at this point" in order "to bridge different perspectives to move everyone in one direction."

He said, "I am only here to assist you in your endeavour."

Commending members for their "engagement and commitment to work towards a credible WTO response to the pandemic," Castillo appealed to members "to use the coming days meaningfully by engaging with each other on the critical gateway issues that you all know." However, he did not elaborate on these "critical gateway issues".

There are fundamental differences among members on almost all the issues in Walker's text, including on the "introduction"; "transparency and monitoring"; "export prohibitions and restrictions"; "trade facilitation, regulatory cooperation and coherence, and tariffs"; "the role of trade in services"; "supporting inclusive recovery and resilience"; "collaboration with other intergovernmental organizations and stakeholders"; and "framework for future preparedness" that includes an "action plan on pandemic response, preparedness and resilience," said people familiar with the discussions.

Divergent perspectives

The differences stem from the divergent perspectives of three different sides: (i) the European Union, China and members of the Ottawa Group of countries led by Canada; (ii) India, South Africa, Sri Lanka, Pakistan, Egypt and several other developing countries; and (iii) the United States.

The EU, China and the Ottawa Group have continued to champion Walker's text as the basis for any further discussions.

China maintained that "the Walker text should be the basis for our further work" but did acknowledge that "consensus has not been reached yet" on some controversial areas, requiring further consultations.

China said the WTO's response to the pandemic should be based on two equally important components – intellectual property and trade-related elements.

The EU said that it fully supported an immediate resumption of the discussions on the Walker text. It said that while a few delegations wanted to improve the text, this did not undermine the broad support to proceed on the basis of that text.

The EU said the Walker text included "two components: an action plan, which is looking at the future and is non-prejudicial; and a declaration – which is equally important as it includes valuable political commitments." It cautioned that if the "valuable political commitments" in Walker's text were not included in the final outcome, the perception would simply be that the membership was not able to provide a "here and now response".

Interestingly, on the day the GC chair announced the "strategic pause," the EU, China and the Ottawa Group circulated their "trade and health" initiative with the addition of some new members. The document states, "The trade policy related actions set out in this declaration are designed to contribute to the WTO response to the current COVID-19 pandemic and to enhance resilience against future pandemics. These actions may be complemented by additional aspects of trade policy, including those related to intellectual property."

India, in its proposal, and South Africa, Egypt, Pakistan, Sri Lanka, Tunisia, Uganda and Venezuela, in a joint proposal, have put forward almost identical demands that centred around fundamental changes as well as additions in addressing the WTO's response to the pandemic.

For example, South Africa, Egypt, Pakistan, Sri Lanka, Tunisia, Uganda and Venezuela proposed that the WTO response must be based on trade rules to address resilience-building; response and recovery from domestic and global crises; food security that includes waiver on subsidies and policy flexibility for food stocks; economic resilience and recovery that includes making pandemic-related subsidies non-actionable; services; and suspension of intellectual property provisions based on the proposed TRIPS waiver.

The seven countries argued that "proposals considered under the WTO pandemic response should in no way constrain the policy tools and space for developing countries and least-developed countries" in responding to pandemics and similar crises.

They also put forward their specific assessments on export restrictions, regulatory coherence and cooperation, trade facilitation, tariffs, services, transparency, and collaboration with other international organizations.

However, Walker had unilaterally decided not to include the proposals tabled by India and the seven countries. The then facilitator chose to deny "flexibility" and "policy space" in the WTO's response to the pandemic, said a member who asked not to be quoted.

Meanwhile, the US remains opposed to several provisions in Walker's text.

Given the divergent views among members on the TRIPS waiver and on Walker's text, the road to finalizing the WTO's response to the pandemic looks somewhat rough. *(SUNS9509)*

India sharply criticizes chair's text on agriculture at WTO

The agriculture trade negotiations at the WTO have yet to yield a breakthrough, with the chair's handling of the talks coming under fire from some delegations.

by D. Ravi Kanth

GENEVA: India has apparently conveyed to the chair of the Doha agriculture negotiations that the current textual formulations in the chair's text on the permanent solution for public stockholding programmes for food security in developing countries (PSH) as well as on the special safeguard mechanism (SSM) need to be removed for any further negotiations to take place, said people familiar with the development.

During consultations with trade envoys in small groups and at an informal meeting of the WTO Committee on Agriculture in special session on 11 February, the chair, Ambassador Gloria Abraham Peralta from Costa Rica, apparently came under intense criticism for allegedly undermining decisions on PSH and SSM.

In one small-group meeting with India, Indonesia (which coordinates the G33 group of developing countries) and the Philippines, India is understood to have rejected the current text on PSH. Indonesia seems to have conveyed that while the G33 group remained open to discussing the concerns raised on the SSM by the Cairns Group of farm-exporting countries and other opponents, questions that had already been answered in previous meetings should not be repeated all over again as part of what seemed to be "stonewalling" tactics adopted by some countries, said people familiar with the development.

At the 11 February meeting of the Agriculture Committee, many developing countries reiterated their specific concerns about the chair's text, while the United States and Brazil apparently stated that they would support issues concerning food security but not PSH, said people who preferred not to be quoted.

Opposition to chair's formulations

During the meetings in the week of 7 February, India apparently conveyed that any further negotiations on PSH and SSM could be held only after the current formulations in the chair's text on both these issues are removed, said people familiar with the development.

The chair, in her report to the WTO's Trade Negotiations Committee (TNC) on 23 November last year, had said that her "assessment that it would be extremely difficult to achieve a permanent solution [on PSH] at MC12 [the WTO's 12th Ministerial Conference, which was eventually postponed last year] was not shared by some developing country Members, who insisted that I forward this issue to Ministers for their consideration and decision."

She said "several Members strongly objected to this proposed course of action, notably due to the lack of detailed technical work on elements for a permanent solution and the absence of parallel progress on domestic support."

She said that "given the stalemate, my recommendation to Ministers is for the adoption of a work programme with a view to agreeing on a permanent solution by MC13."

She also said that given the importance attached to the PSH issue by several developing-country members, "Ministers may, if they so wish, consider revisiting it, bearing in mind the significant divergent positions as outlined above, among the Membership."

On the issue of SSM, Peralta had said: "Several developing Members attach importance to an outcome on SSM at MC12, especially in the wake of the COVID-19 pandemic. However, given the deep divergence among Members on some fundamental aspects of the SSM negotiations, including on the issue of linkage with market access, it has become apparent that a substantive outcome on SSM at MC12 – even in a limited or temporary setting – is increasingly unlikely."

She proposed that "the [WTO] General Council makes recommendations on this matter to MC13 for the consideration of Ministers."

At a meeting of the Agriculture Committee on 24 January, India and many other developing countries apparently sharply criticized the chair for creating unprecedented levels of "trust deficit", while also voicing their disapproval of the chair's draft agriculture text (which was attached to her report to the TNC), said people familiar with the development. Members from the African Group, the African, Caribbean and Pacific (ACP) Group, India, Indonesia (on behalf of the G33) and South Africa alleged that the chair had violated the core provisions about how the chairs of the negotiating bodies must discharge their duties.

There was continued opposition to the chair's draft text in the meetings Peralta held with developing countries in different configurations in the week of 7 February, said people familiar with the development.

Against this backdrop, India has apparently urged the chair to remove her formulations on both PSH and SSM in order for any further negotiations to take place, said people who asked not to be quoted.

Also during the meetings, Peralta suggested that some members had called for the appointment of facilitators, without mentioning their names.

However, India is understood to have said that it would not support such a proposal, given what had happened when a facilitator was appointed to deal with the issue of special and differential treatment in the WTO's fisheries subsidies negotiations, said people familiar with the discussions.

That facilitator was Ambassador Didier Chambovey from Switzerland, whose recommendations caused a huge gap between a majority of developing countries and the biggest fisheries subsidizers such as the European Union, the US, Japan, Canada and several South American countries.

In short, India, the G33 and many African countries seem to be unconvinced by the agriculture chair's proposals because of the "trust deficit" that she had created throughout the negotiations during the past one year, said people who asked not to be quoted.

Food security narrative

Meanwhile, a new narrative seems to have been advanced by Brazil and the US in that food security is different from PSH.

For the past several months, the opponents of a permanent solution for public stockholding programmes for food security have advanced the narrative that members must address global food security first.

In a restricted room document issued on 21 September 2020, Brazil had argued that concerning domestic agricultural support, the UN Food and Agriculture Organization (FAO) recommends that countries "design this type of policies in a way that they do not affect international markets and, instead, should seek to promote inter-regional trade."

Brazil said that according to FAO, "supporting farmers' incomes can also be achieved through direct payments, decoupled from production decisions, as a potentially more cost-efficient approach."

"In sum, it recommends that countries avoid excessive subsidization, which may exacerbate market volatility, and encourage balanced and time-bound domestic support measures to maintain adequate production levels and farmers' income. Domestic support is the only AoA [Agreement on Agriculture] pillar in which no progress has been made so far since the Uruguay Round. Members' different reactions to the pandemic stressed the imbalances between their outlays and entitlements under AoA and made more pressing an outcome that could cap and reduce trade-distorting domestic support without deterring Members' needs to face the immediate and temporary effects of the pandemic."

Brazil said that "regarding public stockholding programmes," as stated by FAO, "increasing stock purchases by governments when stocks are already high can lower availability on international markets and put upward pressure on food stockpiling by consumers or other private actors."

Brazil also said that "the more Members had to resort to them as a tool of addressing food security concerns during the current pandemic, the more urgent finding a permanent solution becomes. Proponents and non-proponents should work together to narrow gaps in several issues, from the coverage to transparency provisions, including the disposal of stocks. In the meantime, guarantees should be given that stocks being procured now will not be released in a damaging way for food markets and other Members' food security."

In a nutshell, it is increasingly becoming clear that the issues of PSH and SSM could make or break MC12 when it is eventually convened, said people familiar with the discussions. *(SUNS9515)*

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North wants climate change issues as its new "trade weapons" at WTO

A developed-country push to bring climate change and other environmental issues into the WTO ambit could have adverse ramifications for developing countries.

by D. Ravi Kanth

GENEVA: The European Union along with several other developed as well as some developing countries on 7 February accelerated their efforts at the WTO on their controversial plurilateral initiative on Trade and Environmental Sustainability Structured Discussions (TESSD), in an apparent attempt to create new mandates for "weaponizing" the climate-change-related issues into new trade rules, said people familiar with the development.

The EU and the other members of the TESSD initiative held a meeting on 7 February with several stakeholders including the International Chamber of Commerce (ICC), the World Customs Organization (WCO), the World Economic Forum and the non-governmental organization CUTS among others to make presentations on how to bolster their case in pushing forward this initiative.

The exclusion of other global civil society organizations working on climate-change-related issues, such as the Third World Network, has reinforced the general perception that the TESSD is being advanced by the Ottawa Group of countries, particularly the EU, contrary to the trade and environment mandate as laid out in the WTO's Doha Development Agenda (DDA), said people who asked not to be quoted.

At the meeting, the United Kingdom also highlighted issues concerning the dialogue on the forest, agriculture and commodity trade (FACT).

Earlier, the UK had submitted a non-paper at the meeting of the WTO's Committee on Trade and Environment (CTE) on 2 February. The non-paper was aimed at highlighting the work of the FACT dialogue, which was established "through COP26 [the UN climate change conference held last year in Glasgow, UK] and is dedicated to considering how forest and agricultural commodity trade and supply chains can support environmental sustainability."

The UK said "it is important to bring this initiative [FACT] to the attention of the Committee on Trade and Environment as a helpful foundation for further collaboration and discussions on sustainable supply chains through this committee".

It said that "the Dialogue's goal is to promote sustainable development and trade while protecting forests and other critical ecosystems." It added that "the alignment of environmental policy with trade policy can support economic as well as environmental benefits by creating market certainty, supporting sustainable economic growth, reducing costs for producers and consumers, reducing vulnerability of trade flows to climate change and mitigating the impacts of the land use sector."

Clearly, there appears to be a determined move to bring as many issues as possible to the table under the TESSD, said people who asked not to be quoted.

Touting the TESSD

At the 7 February meeting, it appears that both the ICC and the WCO made a strong pitch to bolster and give legitimacy to the TESSD.

The ICC, in its presentation of a report titled "The International Trading System and the Circular Economy: Recommendations for Action in the WTO," and on "International Trade: Options for WTO negotiations", argued that "support to the WTO Trade and Environmental Sustainability Structured Dialogue (TESSD) in the run-up and after MC12" (the WTO's 12th Ministerial Conference) must be enhanced by: (1) forming a Reference Group made up of WTO delegates, business networks, intergovernmental organizations and experts; (2) building on the ICC's large international network of companies; and (3) convening a series of events in the run-up to MC12.

The ICC proposed a ministerial statement at MC12 on the circular economy in the TESSD based on the options for possible "deliverables" at the ministerial meeting. The options it put forward included the following: "as part of the revived plurilateral EGS [environmental goods and services] talks"; "reviving/extending previous work on re-manufactured goods"; and "identifying common principles and sectoral best practices."

The Brussels-based WCO, an independent intergovernmental organization, said it shared "the view that international trade and trade policy can support environmental and climate goals towards achieving the UN's Sustainable Development Goals."

It said that "customs administrations have a critical role to play with respect to the control of the transboundary movement of environmental goods, by supporting effective implementation of various Multilateral Environmental Agreements (MEAs), whose objectives include, among others, addressing the illicit trade in hazardous waste and ozone-depleting substances, combating the illicit trade in endangered species, and preventing the spread of plant and animal diseases, as well as of invasive alien species."

Expressing support for the plurilateral "Ministerial statement on trade and environmental sustainability, on the need to explore opportunities and approaches for facilitating the legal trade in environmental goods," it called for "considering not only the regulatory perspective, but also the technical requirements and the specificities of sustainable supply chains."

The WCO also provided updates on its Asia-Pacific Plastic Waste Border Management Project, saying that identifying "environmentally desirable goods and materials at the border is a central aspect in facilitating trade in such goods, and building customs administration capacities to foster compliance while promoting trade facilitation and revenue collection and so on."

In short, the TESSD, which is a plurilateral initiative without any legal status at the WTO, appears to be an attempt to "weaponize" climate-change-related goals into burdensome and onerous trade-related commitments which are not part of the Doha mandate, said people familiar with the development.

Serious consequences for Global South

A recent policy brief by Carleton University and the Centre for European Studies highlights the seeming inadequacy of the WTO to act as a body for tackling environmental challenges, and emphasizes instead that the role of the WTO should be limited to trade issues, with non-trade issues left to the relevant agencies to handle.

For example, it said, on climate change, the optimal solutions should come from the UN Framework Convention on Climate Change (UNFCCC); ideally, the regulatory approach of the UNFCCC's Paris Agreement would have included some normative rule to allocate responsibility for greenhouse gas emissions occurring from imported products. Meanwhile, for plastics, the ideal venue for solutions would be the transborder regimes for waste (for example, the Basel Convention).

The UN Conference on Trade and Development (UNCTAD)'s Trade and Development Report (TDR) last year conveyed the same message in that there is a need to delink international trading rules from the climate goals.

The TDR argued that while climate adaptation remains a priority for the developing countries, greenhouse gas emissions in traded goods and services account for only 27% of global carbon emissions. This points to a rather limited scope for international trade policy to contribute to a global green growth agenda, with trade policy only serving as a complementary tool for attaining environmentally sustainable growth, the TDR said.

The TDR added that international trading rules should be designed in a way that developing countries have the space to draw up the required climate adaptation policies without fearing punitive action.

Incentive-based approaches, such as optional preference schemes that provide ring-fenced climate financing additional to official development assistance or preferential market access in exchange for progress towards nationally determined contributions (NDCs), could accelerate climate action without resorting to punitive measures with anti-developmental effects, the TDR said.

As a step towards such an arrangement, the international community could support initiatives to transform rules governing intellectual property rights, such as through a WTO Ministerial Declaration on TRIPS and Climate Change, with a view to expanding flexibilities for developing countries under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in relation to climate-related goods and services. This could provide a basis for innovative mechanisms for promoting access to patent-protected critical green technologies, said the TDR. Other initiatives that could support this agenda include the open-sourcing of key green technologies as global public goods.

Both the TDR and the policy brief by Carleton University and the Centre for European Studies conveyed a strong message that the "WTO should not be perceived as an institution capable of solving important non-trade problems. Indeed, the question of whether the WTO is capable of solving trade problems remains to be answered."

In a nutshell, while the WTO is failing to deliver on the mandated Doha work programme on trade and environment, the EU and its allies are bringing new non-trade issues into the WTO that could ultimately impose huge costs on the developing countries. *(SUNS9511)*

False positive: ILO report on IMF policy advice

More permissive public rhetoric notwithstanding, the IMF continues to press for fiscal austerity in its member states, according to a recent report.

by Alexander Kozul-Wright

GENEVA: International Monetary Fund (IMF) policy advice has not materially shifted in the wake of COVID-19, an International Labour Organization (ILO) report has found.

In past financial crises, the IMF has been criticized for deploying a "one-size-fits-all" toolkit, conditioning new loans on contractionary fiscal policies and looser government regulation.

In a report published last December, the ILO analyzed 148 IMF loan programmes and Article IV reports disseminated in 2020. Article IV reports are annual staff reports which evaluate IMF member states' macro-financial situation and provide policy advice.

While the Fund generally supported increased healthcare expenditure and cash transfers, it also called for fiscal consolidation and the reduction of public debt in no less than 87% of the documents examined.

In October 2020, IMF Managing Director Kristalina Georgieva noted that "as indebted countries start to recover from the pandemic, they could suffer a second wave of economic distress triggered by defaults, capital flight, and fiscal austerity."

While the IMF's top brass have cautioned against premature austerity, the pandemic has so far failed to trigger a strategic shift in the Fund's lending practices.

According to UN estimates, 39 advanced economies spent over $5 trillion combatting the virus in 2020. The equivalent figure for 155 emerging market economies was slightly less than $1.5 trillion. This gap illustrates the privilege of reserve-currency status and the imbalances in fiscal firepower available to advanced economies relative to developing countries.

In this context, the IMF made 113 disbursements totalling $93.7 billion to 83 countries in 2020, including 31 lower-middle-income countries and 27 low-income countries.

However, while the IMF acted swiftly to provide debt relief, its Debt Service Suspension Initiative has been criticized for being too small.

IMF expenditure advice

Since March 2020, the IMF has generally supported higher healthcare expenditure to meet pandemic-induced emergency costs, including on personal protective equipment and the acquisition and distribution of vaccines. It also called for the introduction of supplementary budgets to finance extra healthcare costs, even if it meant increasing fiscal deficits.

Similarly, many governments expanded their social assistance schemes (sometimes called cash transfers) to preserve employment through deep recessions, particularly for inadequately covered groups. Again, the IMF largely encouraged these measures, even at the cost of higher debt.

Still, the most recurrent IMF expenditure recommendation in 2020 was to begin (or resume) fiscal consolidation once the health crisis was contained.

In 40% of the countries investigated, IMF austerity proposals were actually larger than the size of the response to the pandemic.

In many cases, the IMF advised countries to reduce "non-priority expenditures"; while the phrase evades a universally accepted definition, it is generally understood to mean social spending not targeted at the poorest in society.

In developing countries, however, the so-called "middle classes" are typically poorly paid and vulnerable to price increases for basic goods.

For instance, the Fund called on almost 30% of low-income countries to reduce subsidies in 2020. As with other "non-priority expenditures", the withdrawal of subsidies can leave large sections of a country's population vulnerable. Last summer, protesters gathered outside the presidential palace in Khartoum (Sudan) over IMF-backed reforms to cut subsidies on petrol, more than doubling its price.

Similarly, the IMF advocated for the "containment" of public-sector wage bills in one-third of low-income countries. In a health emergency this policy can be particularly problematic, as efforts to bolster healthcare delivery are based on a government's ability to attract and retain qualified frontline staff.

Revenue

To help finance the emergency costs related to COVID-19, the IMF's most frequent policy recommendation was to raise value-added taxes (VATs), either by broadening their base or by reducing exemptions.

Directives to improve VAT collection were made for 32% of low-income countries in 2020, despite the IMF's own recognition of the regressive nature of such taxes. For example, the 2020 Article IV report for the United States pointed out that "given VAT's regressive effects, it will be doubly important to ensure that before a federal VAT is introduced, there is an effective safety net for the poor that is already in place."

In contrast, the Fund made fewer recommendations to improve revenue collection from more progressive forms of taxation, such as personal income taxes (PITs), corporate taxes and wealth taxes.

In comparison to the 56 reports which contained recommendations to increase VATs, only 33 contained advice related to PIT reform. Of these, eight actually recommended *lowering* PITs.

Conclusion

The ILO report found a substantial degree of overlap between the conditions attached to IMF loans and the policy advice made in Article IV reports in 2020, suggesting a continuity in IMF doctrine during the pandemic.

Despite repeated exhortations from senior staff that COVID-19 represents an opportunity to build a new social contract, the IMF appears to be bent on preserving the old one.

To date, COVID-19 has resulted in a two-speed recovery, driven by low vaccination rates and inadequate fiscal stimulus in developing countries compared with advanced economies. The ILO report further underlines the need for the IMF to re-evaluate its "business-as-usual" approach to support a recovery that will fight global inequality and not fuel it. *(SUNS9515)*

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Peasants marginalized by big farmers

Large farms are taking up much of the world's agricultural land, with consequences for smallholder livelihoods and food supply.

by Vikas Rawal and Jomo Kwame Sundaram

A recent UN Food and Agriculture Organization (FAO) study shows that the largest farms cultivate a high and increasing share of agricultural land in much of the world.

World Agricultural Census data for 129 countries show about 40% of the world's farmland is operated by farms over 1,000 hectares (ha) in size.

About 70% is operated by the top 1% of farms, all bigger than 50 ha each. A rising share of farmland is in larger farms. But farm sizes in developed and developing countries seem quite different.

Farms smaller than 5 ha accounted for 63% of land in low- and lower-middle-income countries. But such farms covered only 8% of farmland in upper-middle- and high-income countries.

The "share of farmland farmed on the largest holdings has increased in ... several European countries (France, Germany and the United Kingdom of Great Britain and Northern Ireland) and in the United States of America." Similarly, in recent decades, more land in many Latin American and sub-Saharan African countries is in larger farms.

However, most agricultural censuses in developing countries do not cover large-scale farms well. Official agricultural statistics in many developing countries focus on farm households, often ignoring corporate farms. Agricultural censuses typically rely on land records, usually neither up-to-date nor complete. Large farms often have land registered to different persons and entities, typically to avoid taxes and bypass land ownership ceilings and regulations.

Government surveys in India have not comprehensively covered large farms, understating inequality. Other data from India suggest the top fifth of farms account for 83% of land.

Even where large farms are legally recognized as commercial entities, land is often held via subsidiaries in complex arrangements.

For such reasons, the extent of concentration is probably greater than what the study suggests.

Ominous trends

Despite its limitations, the study's findings are ominous. Changing inequalities in farmland ownership and cultivation have reduced the smallholder or peasant share of food production.

The study suggests that "land grabs", new laws and policies have enabled large (capitalist) farmers, agribusiness corporations and other commercial entities to control most of the world's farmland.

Disparities in government support allowed by World Trade Organization (WTO) and other trade agreements have enabled large farms in developed countries, like the US, to gain more advantages over relatively uninfluential peasants in the South.

More advantages to big farm capital in recent decades, particularly to large-scale commercial agriculture in the global North, have enhanced their edge.

More peasant distress has pushed many deeper into debt. Many of the most vulnerable have had to migrate, seeking precarious employment elsewhere.

Under various pressures not to protect food agriculture, developing countries have cut support for peasants. Withdrawal of such assistance has forced farmers to buy inputs at commercial prices. Meanwhile, many have to sell their produce cheap to those providing credit or other facilities.

By enabling easier land takeovers, commercial farming has quickly spread in ecologically fragile areas such as the Brazilian Cerrado, various parts of sub-Saharan Africa and steep slopes subject to deforestation.

Small farms, world food

The study has triggered a controversy by asserting that "family farms" is a broader category than smallholdings. These would include large family-owned or -run farms. Hence, family farms account for 80% of the total value of food produced in the world, while smallholdings account for only 35%. These estimates have been contested by several civil society organizations which have protested to the FAO Director-General.

Most agricultural censuses do not provide data on production by farm size. Instead, the study divides the total market value of a country's food output by its total farmland. It then assumes a constant food output value per hectare. But this ignores significant differences in crop output among farms of different types.

In many countries, large farms produce more commercial crops, not necessarily food. These may be for manufacturing (e.g., rubber, cotton), animal feed or to be industrially processed for consumption (e.g., sugar, palm oil, coffee).

Many smallholder peasants consume significant shares of their own farm outputs. They typically work on limited land and need to meet their own food needs, rather than maximize cash incomes. Hence, their priorities may be rather different from those of commercial farms.

More fertile regions (e.g., river deltas) tend to have greater population densities, smaller farm sizes and higher productivity. Such smaller farms often grow multiple crops yearly, while larger farms with harsher agro-climatic conditions (e.g., higher temperatures, more snow or less water availability) often only have a single crop annually.

Although not universal, and often overstated, there is evidence of smallholders having higher land productivity, inversely related to farm size, owing to differences in the way factor inputs are used by various types of farms.

By assuming constant food output value per hectare, the study ignores many important variations and probably underestimates the contributions of small farms to world food supply.

Peasants marginalized

The study shows how various systemic advantages and biases have enabled big capitalist farms to control more of the world's farmland and food supplies. But the share of food supply produced by smallholder producers is far from settled.

While more pronounced in rich countries, large corporate farms have also been growing in many developing countries. Even where family farming is predominant, increasing farm sizes have been apparent.

The study rightly notes the need to consider different types of farms in making appropriate policies for family farms of various sizes. This is necessary to better formulate policies to address poverty and livelihoods, especially for smallholder producers in distress. It even suggests the need to "hold large-scale and corporate agriculture accountable for the negative externalities of their production (for example, on the environment)".

Besides better farming data, farmland concentration and its many implications in various parts of the world should be more appropriately addressed. *(IPS)*

***Vikas Rawal** is Professor of Economics at the Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi. He has conducted field research on agrarian relations in different parts of India for three decades, and works on global agricultural development challenges. Inter alia, he was lead author of* The Global Economy of Pulses *(FAO).* ***Jomo Kwame Sundaram**, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.*

Putting the Third World First

A Life of Speaking Out for the Global South

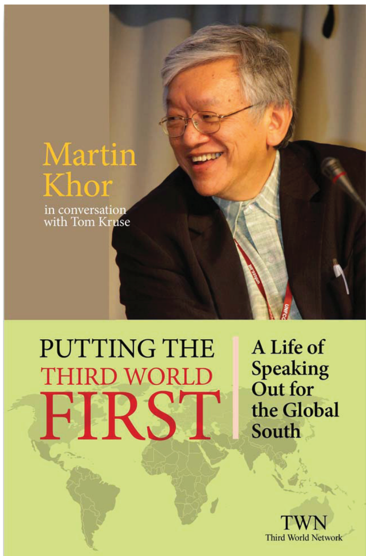
Martin Khor in conversation with Tom Kruse

Martin Khor was one of the foremost advocates of a more equitable international order, ardently championing the cause of the developing world through activism and analysis. In this expansive, wide-ranging conversation with Tom Kruse – his final interview before his passing in 2020 – he looks back on a lifetime of commitment to advancing the interests of the world's poorer nations and peoples.

Khor recalls his early days working with the Consumers Association of Penang – a consumer rights organization with a difference – and reflects on how he then helped build up the Third World Network to become a leading international NGO and voice of the Global South. Along the way, he shares his thoughts on a gamut of subjects from colonialism to the world trade system, and recounts his involvement in some of the major international civil society campaigns over the years.

From fighting industrial pollution in a remote Malaysian fishing village to addressing government leaders at United Nations conferences, this is Khor's account – told in his inimitably witty and down-to-earth style – of a life well lived.

Martin Khor (1951-2020) *was the Chairman (2019-20) and Director (1990-2009) of the Third World Network.*



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The fintech folly

Fintech – the use of digital and online technologies to deliver financial services – has been broadly hailed as a means to achieving financial inclusion and alleviating poverty. In its present, corporate-led incarnation, however, it is more likely to hurt than help the individuals, communities and economies it purports to benefit.

by Milford Bateman and Fernando Amorim Teixeira

Financial technology, or "fintech", is a widely celebrated recent innovation. Defined as "[c]omputer programs and other technology used to support or enable banking and financial services", fintech comes in many guises. In its very simplest form – the subject of our analysis – fintech involves a greatly enhanced ability to transact financial services via a mobile phone or smart device, making it easier, cheaper and quicker, for instance, to: (1) obtain a loan; (2) make a savings deposit; (3) transfer and receive money; and (4) pay for and be paid for goods and services.

Beginning with Kenya's M-Pesa in the late 2000s, along with major advances in fintech applications in China, the impression was created that technology, markets and finance were combining to significantly improve everyone's lives around the globe. Some of the most enthusiastic advocates even began to argue that fintech will re-engineer capitalism towards "sustainability, equality and the advancement of humanity as a whole", thus ushering in a new "golden age" of abundance and prosperity.

The excitement created among influential international development organizations was especially intense. Fintech appeared to open up an opportunity to massively accelerate sustained poverty reduction and local economic development throughout low- and middle-income countries (L&MICs). This goal would principally be achieved by achieving "full financial inclusion". While several earlier "bottom-up" interventions and innovations had failed to address global poverty in spite of significantly extending financial inclusion, most notably with the help of the now discredited microfinance model, this time would apparently be different. Given the right conditions and support, fintech could achieve "full financial inclusion" almost everywhere. Promoting the right conditions for fintech to expand worldwide quickly became a high-profile area of operation, funding and lobbying among some of the most influential international development organizations. Global poverty seemed to be on its way, finally, to being consigned to history.

This article explores how this seductive narrative is a fundamentally flawed and inaccurate portrayal of the emerging reality. While it is clear that fintech offers a major opportunity to improve the lives of the poor if done right, and it has had some important initial successes, its full long-term impact looks far less rosy given the way that it has been operationalized to date. Objective analysis of the empirical evidence and trends suggests that the initial "honeymoon" gains are now beginning to be offset, if not entirely swamped, by the emerging downsides. These downsides arise, we argue, not because of the technological innovations that underpin the fintech model, which are clearly innovative and "work" in a strictly technical sense. Rather, it is because the fintech model is structured almost everywhere to operate under a neoliberal governance framework. In other words, the fintech model is evolving in ways that overwhelmingly serve the narrow interests of a powerful group of investors, financial, telecom and digital payments corporations, international development agencies, philanthropic bodies, Western governments, and other stakeholders also dedicated to advancing their own private enrichment and ideological agendas. What we might therefore term the "investor-driven" fintech model is being impressed upon governments in the L&MICs on the basis of a largely false prospectus.

Similar to the fate of the once universally celebrated microcredit industry, from the mid-2010s much of the material claiming that fintech was a major poverty-reduction intervention began to be exposed as fundamentally flawed. Many of the early arguments to justify fintech were constructed on: (1) the mistaken belief that initial "one-off" positive impacts will automatically persist into the long term; (2) strained logics linking cause to effect; (3) biased evaluation methodologies; and (4) manifestly unreal simplifying assumptions.

Fintech microcredit lending exacerbates destructive competition in local communities

From the early 1980s onwards, many international development organizations adopted a range of policy interventions that reflected their neoliberal worldview. Broadly speaking, this held that capitalism required state intervention to be kept to a bare minimum and that individuals should be responsible for overcoming their own poverty through entrepreneurship and self-help. The imposition of this neoliberal model of capitalism across the world began in the L&MICs when many post-independence reconstruction programmes and state-driven industrial development initiatives were replaced with "structural adjustment programmes" (SAPs), promoted mainly by the World Bank and the International Monetary Fund (IMF) along with the multilateral development banks (MDBs). The SAPs effectively reversed much of the progress that governments had made in previous years. Important state-owned industrial capacity was privatized, resulting in workers being laid off and a surge in imports. Many public-sector bodies [such as government departments, schools, hospitals and research and development (R&D) institutions] were also forced to close down or accept cost-cutting redundancy programmes – with retrenchment adding to unemployment. The withdrawal of state financial and marketing support for agriculture also left many without work in the agricultural sector, which in turn intensified rural-urban migration.

Clearly, something urgently needed to be done to avoid a serious longer-term reaction, possibly violent, from millions of people now forced to try to survive on no earned income, generally little or no state welfare support and only temporary "safety net" programmes funded by such as the World Bank designed to cushion the immediate pain. The sustainable solution was simple: it was hoped that the marginalized would find their own way out of poverty by entering into petty informal entrepreneurship projects of one kind or another. Crucially, it was assumed that virtually all of the new microenterprise projects likely to emerge under such pressure would generate an income commensurate with survival, if not better than that. The poor just needed to commit themselves to the task.

This assumption, however, was largely false. As many path-breaking studies of the "informal sector" highlighted, the average local economy was already fairly saturated with informal businesses all desperately trying to survive in the nooks and crannies of the formal economy. This made it difficult for a new wave of individual entrepreneurship projects to find the local market space in which they could succeed. The result was inevitable; while a small number of informal microenterprises succeeded, most either failed outright or struggled to survive on a tiny financial reward for long hours of labour. In addition, increased competition in the local labour market contributed to serious downward pressure on the revenues of existing microenterprises: falling average incomes in the informal economy were registered especially in Africa and Latin America. Moreover, as many leading anthropologists also pointed out, working and living conditions in the informal economy seriously deteriorated, thanks to increasingly unethical business tactics, social solidarity being further degraded, and growing levels of violence and "turf wars" breaking out within and across poor communities. All told, the more competitive and extensively deregulated local labour markets that emerged under SAPs helped create "living museum(s) of human exploitation". Not surprisingly perhaps, the UN termed this period for many L&MICs to be "the lost decade".

Although the extent of this dystopian scenario was beginning to be recognized in the 1990s, cognitive dissonance ruled: the belief held that the informal economy is capable of absorbing almost unlimited labour, so promoting even *more* microenterprise development was still the way to address poverty. This core belief underpinned the rise of the global microcredit industry that began in the 1990s. Its pioneer and 2006 Nobel Peace co-laureate, Muhammad Yunus, was just the most distinguished among the many proponents of this view when he famously declared: "[Microcredit] opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or in a massive poverty situation."

The sheer unworkability of the microcredit model began to be exposed in the mid-2000s when a growing number of pioneering countries reached a "critical mass": enough microcredit for everyone wanting it. A new term, "job churn", describes the unproductive process where the benefits of a high level of microenterprise entry are largely offset by the combined impact of high levels of "exit" (closure) and "displacement" (where new microenterprises destroy jobs in existing microenterprises). This "churn" effect helps to explain, among other things, why the net number of sustainable jobs created by new microenterprises is generally far below the number of new microenterprises registered. Worse, the increased local competition tended to push down local prices, which in turn reduced average earnings for those owning and working in microenterprises. At the same time, the better-off benefited from the cheaper cost of many basic goods (such as food) and services (gardeners, cooks, cleaners). The pain of poverty was thus not eradicated but simply *redistributed* among the poorest.

The problem was clear: the global microcredit movement, and Muhammad Yunus in particular, had effectively fallen for one of the most famous economic fallacies, known as "Say's Law", which holds that "supply creates its own demand". As shown by Alice Amsden, an astute development economist, there is generally not (or no longer) a limited supply of the essential goods and services people living in poverty need in order to survive, because these are now largely available in most poverty-stricken areas. The problem is that the poor cannot access them because of their lack of sufficient purchasing power. After all, if there is little or no demand in the poorest communities by definition, there is little realistic chance that any more than a tiny handful of individuals will succeed in their microenterprise project and escape poverty. Amsden's basic argument is that poverty is largely a problem of limited local demand, not insufficient local supply.

In the main, influential international development organizations and mainstream economists chose to ignore this structural flaw in the operation of capitalism in the L&MICs, which complicated their coordinated efforts to promote the microcredit model. Accordingly, cognitive dissonance ruled once more. Occasionally, however, the reality breaks through even to mainstream economists.

Despite this finding, many new fintech lending platforms are already extending a very large volume of digital microcredit precisely in order to spur accelerated microenterprise development. According to some analysts, this additional capital might amount to as much as $1 trillion. The widespread expectation is that this will automatically reduce poverty by encouraging many more microenterprises to be established.

Cognitive dissonance *still* rules: fintech-based lending models remain premised on the same discredited belief that local communities possess the magical elastic quality of being able to support unlimited numbers of new microenterprises. The almost inevitable result is that the fintech model will intensify the problems of over-supply that already bedevil microenterprise development funded by "bricks-and-mortar" microcredit institutions. Evidence to this effect is already emerging in the first countries to adopt the fintech-lending model, notably Kenya.

As the fintech model continues to expand and digital microcredit becomes ever easier to access, it seems inevitable that more financial and other scarce resources will effectively be expended on ultra-unproductive microenterprise projects that do little to contribute to sustainable local economic development, and may even undermine or block it entirely.

Crowdfunder financing of the SME sector is also an "anti-development" financing model

Alongside local fintech lenders such as M-Pesa, a new and quite distinct non-deposit-taking fintech-based lending model has emerged that is more attuned to supporting formal small and medium enterprise (SME) development in the Global South. This is the "crowdfunding" lending model, also known as "peer-to-peer" (P2P) lending, which involves raising finance from a group of individuals, investors and institutions that, for a fee, is channelled to clients wherever they are. The widely advertised aim is to provide formal SMEs with much more capital, more quickly and at lower interest rates.

Right from the start, the crowdfunder lending model began to generate considerable excitement among a number of international development organizations. An early World Bank study, for example, went so far as to claim that the rapid expansion of the crowdfunder lending model was one of the keys to the development of the L&MICs, describing it as "an innovation in entrepreneurial finance that can fuel 'the rise of the rest' globally". The World Bank's International Finance Corporation (IFC), its investment wing, describes crowdfunder lending as "the future of SME financing". With the entry of many crowdfunder lending platforms from the early to mid-2010s onwards, especially in China, it was believed that a period of accelerated fintech-enabled development of the formal SME sector was very much on the cards.

However, economic history – backed up by the recent experience of crowdfunder lending models in action – strongly suggests that an East Asian-style "rise of the rest" is extremely unlikely. In fact, the crowdfunder lending model is more likely to seriously *extend* the misallocation of financial resources that has already been one of the most destructive features of "financialized" capitalism. To explain this, we need first to look at economic history and briefly highlight the two successful SME financing models that emerged in Europe and East Asia after 1945.

The "relationship banking" model played a key role in developing European countries in the late 1800s, and then in the aftermath of the Second World War it significantly helped to reconstruct the region. A central factor in this success was the close local relationships established between the financial sector and its local clients, local and regional governments, and other local institutions.

Notable European examples where the development of such close relationships greatly underpinned local economic development can be found in Germany and in both the Basque region of northern Spain and southern Spain. Probably the most famous example where networking relationships were linked not just to economic success but also to a high level of equality and social justice, emerged after 1945 in the so-called "red regions" of northern Italy.

Although its economic, political and cultural conditions are very different from Europe's, including in many cases a lack of formal electoral democracy, postwar Asia also pioneered a lending model built on relationships, local knowledge and contacts, and a real concern for longer-term community development.

While there are clear differences between the European relationship-based and East Asian development-driven lending models, their similarities are far more important. These include: (1) a physical proximity to clients, which is the best way to build trust, reciprocity and cooperation, and also ensures a deep understanding of local markets and the business culture as well as the capabilities of existing and potential clients; (2) an enduring, often politically mandated, commitment to securing long-term community development, rather than just maximizing the short-term profits of the lending institution; (3) a willingness to identify and patiently support particular growth-oriented local enterprises and sectors with the most potential to become established, grow, diversify and adopt new technologies, especially production-based formal SMEs; (4) a general unwillingness to support no-growth informal microenterprises and self-employment ventures with little or no possibility of stimulating sustainable economic development; (5) a preference for funding community-owned and -controlled enterprises, which are better equipped to generate a more resilient and equitable local economic structure; and (6) an interest in facilitating the building of formal clusters, networks, sub-contracting chains, and joint innovation and technology transfer among formal SMEs, which are productivity-raising relationships among local enterprises that ultimately promote local economic growth.

The crowdfunder lending model diverges substantially in almost every respect. The "pure" market-driven crowdfunder lending model is essentially transactional. It requires little or no human intervention, avoids the need to build long-term knowledge-sharing relationships with clients, has little interest in clients acquiring technological capabilities (since in the short term this is likely to reduce the cash flow required to service a loan), and lacks any local embeddedness.

In practice, this translates into a number of adverse trends. For example, the financing offer might last only until higher/quicker profit or lower-risk opportunities can be found elsewhere. Crowdfunder lenders have virtually no interest in considering longer-term local development issues, nor indeed any real capacity to do so even if they wanted to. Rather, the key to their commercial success is the use of impersonal algorithmic credit scoring, meta-data collection, machine learning, social media use, and other digital technologies that ensure the selection of well-established clients possessed with the ability to repay on time over the length of the typically short-term loan. A crowdfunder lender can even track a client's cash flow to ensure that she or he maintains a successful repayment record. What happens after or on top of that (good or bad) is largely of no concern to the crowdfunder lender.

It is also now recognized that crowdfunder lenders are prone to damaging "herd instincts". Using the same or similar decision-making techniques, crowdfunder lenders tend to rush in to work with the same clients. An over-supply problem results. By the same token, crowdfunder lenders can quickly move out of financing certain enterprise sectors if other geographical areas or business sectors offer an easier and quicker route to expand the portfolio. Crowdfunder lenders are also more likely to reduce their lending operations to certain sectors during a crisis, which is generally the exact opposite of what is needed for the local economy to survive relatively intact. In particular, the lack of local connections and relationships renders the lending function ineffective from a development perspective.

In sum, crowdfunder lending is a lending model that is designed to maximize the short-run financial returns to investors, not to provide the financial conditions that enable SMEs to get established and make a major contribution to sustainable local economic and social development.

China has pioneered crowdfunder lending and, at least for a time, it appeared to be making a major contribution to SME development. With the passage of time, however, it became clear that this was not the case and that crowdfunder lending was actually an ineffective way of supporting SMEs across the country. Other countries are all too likely to experience similar problems related to serious financial misallocation by crowdfunder lenders.

The immediacy, flexibility, neutrality and mobility that characterize the crowdfunder lending model – all characteristics of how "pure" markets are supposed to work in theory – are widely advertised as its main advantage over more interventionist SME lending models. It is, however, precisely these attributes that offer little to local communities that are desperate for a stable and affordable source of capital, as well as other forms of institutional support, with which they might hope to achieve sustainable local enterprise development. The overwhelming profit-driven emphasis on increasing the "quantity" of lending – the speed with which loans can be pushed out of the door and how quickly and efficiently they will be repaid – effectively ensures that it bypasses the crucial "quality" issues that are key to sustainable and equitable local enterprise development and growth. Consequently, we should not expect local economies in the Global South to "catch up" with those in wealthier countries on the basis of an expansion of crowdfunder-based lending bodies and loan volumes; rather, they are more likely to increasingly "fall (further) behind".

Fintech destroys social solidarity

While the global microcredit model is by far the best-known self-help-based intervention to find favour in the neoliberal school of thought, remittance flows have also been "repackaged" as an ideologically acceptable form of self-help. People are supposedly able to address their own poverty by the receipt of remittances from their own extended family and social networks, thus neatly doing away with the need for state intervention, social welfare programmes, wealth taxes and other neoliberal bugbears. Inevitably, this heightened interest in remittances led to a search for easier and cheaper ways to facilitate remittance flows in order to maximize their poverty-reduction impact.

The original innovation of M-Pesa in Kenya was that money could be transferred between individuals in the country much faster and more cheaply than before. This was later extended to include the ability to receive remittances from abroad, which have in total long outstripped aid from developed countries. Thanks to the ease, speed and reduced cost of sending remittances, it was then found that individuals and families using M-Pesa were receiving an even larger volume of remittances than previously. The same thing happened in some other countries after introducing fintech applications. Some influential international development organizations projected that the volume of remittance income would begin to grow everywhere with the arrival of fintech. This would allow the recipients not only to better cope with emergencies, such as the current COVID-19 crisis, but potentially to also escape their poverty predicament by being able to quickly exploit new business opportunities. At no real cost to governments or the need to increase taxes on wealthier citizens, rising remittance flows again promised to help reduce poverty.

Crucially, the optimism of certain major international development organizations was based on their assumption that remittance flows could be exploited more intensively, with no diminishing returns. This is unlikely to be the case, however, given the wealth of experience that formalizing, monetizing and programmatically using social support networks in the service of poverty reduction eventually leads to their becoming more fragile and subject to degradation. We also know that links to family and friends among the diaspora often weaken over time, and results in remittances generally tapering off.

Evidence from Kenya suggests that this negative scenario is already a reality. Researchers have found that those sending remittances back to family and friends in Kenya feel under greater pressure to both send more regularly and increase the amounts, with some claiming that they now have "nowhere to hide" given how quick and easy the process is. As a result, some of those petitioned to send funds back home opt to "become lost", refuse any further calls or deliberately retain very little in their mobile money account in order to have no means to respond. It remains to be seen how significantly this will affect remittances at the global level, but it is a growing factor.

Another, more concrete problem is that remittance flows are increasingly used as a form of collateral, especially to allow recipients to leverage microcredit if they wish to do so. This relationship has already evolved into a more one-sided exploitative commercial transaction that involves aggressively peddling high-interest-rate microloans to vulnerable clients.

Fintech represents a disruption that clearly makes it simpler and more efficient to send remittances and, at least initially, has probably facilitated an increased flow of funds to impoverished people. However, problems are likely to arise both from the overdependence on remittances and from the corporate exploitation of this now fintech-enabled income stream.

Fintech exacerbates problems of reckless lending and overindebtedness

As we have seen from the early 2000s onwards, the boom in the volume of microcredit largely failed to create new jobs and incomes, but it did create a reckless lending-driven dynamic that, by the late 2000s, had plunged many communities, regions and entire countries into mass overindebtedness. The problems created by the programmed over-supply of microcredit were directly linked to rising poverty and vulnerability; forced migration; loss of collateral, including land; the rise of modern debt slavery; and frequent financial meltdowns and near-meltdowns, the most famous being the microcredit meltdown in the state of Andhra Pradesh in India in 2010.

It was no surprise, therefore, that this growing problem of overindebtedness was significantly extended with the arrival of fintech platforms, especially given their promise to make credit available "at the touch of a few buttons". Fintech lenders are incentivized to extend as much credit as possible, almost entirely irrespective of the ability of the community to absorb it productively, due to intense investor pressure on new fintechs to expand as rapidly as possible. This self-imposed urgency inevitably leads to reckless lending. Apart from causing indebtedness and penury, it also typically evolves into illegality and fraud (see next section).

One of the first and most destructive outbreaks of fintech-driven indebtedness occurred, once again, in Kenya. According to Gordon and Lyon, it is not hard to see how this problem has arisen: "If you have an M-PESA account, a phone and, in some cases, an active Facebook account, you're only a few taps away from securing an instant loan ranging from $5-$500." The commercial success of Safaricom's M-Shwari microcredit unit, which operates on the M-Pesa platform, began to attract a host of other fintechs hoping to cash in, such as Tala and Branch. With more than $50 million invested in fintech start-ups in Kenya since 2015, however, this created a need for new fintech lenders to generate as much as $500 million in order to pay back the venture capitalists. This pressure forced fintech lenders to expand as fast as they could and to take ever-increasing risks, plunging some of Kenya's poorest citizens into a huge level of personal debt.

It is no coincidence to find that rising poverty and deprivation in many L&MICs closely correlates to the rising popularity of various forms of gambling, lotteries and pyramid schemes. Anything that promises the chance of an instant exit from grinding everyday poverty will inevitably have its attractions, even if the longer-term consequences are all too likely to further embed such conditions into one's life. One of the most remarkable adverse developments in Kenya was the extent to which young people were programmatically assisted into often horrifying levels of debt.

Other African countries are on the same path to serious fintech-created overindebtedness problems. In Tanzania, over half of digital borrowers cannot repay a loan on time, while nearly a third have had to default. Equally worrying levels of individual overindebtedness have been registered elsewhere. South Africa is one of the countries currently most likely to face a crisis.

Elsewhere around the world, the deployment of fintech applications by microcredit institutions is causing similar concern in view of its obvious potential to exacerbate existing problems of overindebtedness. Cambodia is one country where an existing debt overhang – the world's largest in per capita terms – could potentially worsen with the recent arrival of many new fintechs and the adoption of fintech applications by existing microcredit institutions.

As amply demonstrated by a growing number of cases in the once "best practice" fintech pioneering countries – Kenya and China – and now elsewhere, the investor-driven fintech lending model is inextricably linked to reckless lending. This inevitably leads to overindebtedness which ends either in a destructive financial "boom-to-bust" scenario, or in using government and international development funds to bail out the failing fintech lenders. There is little to suggest that any permanent solution to this problem has been found that remains within the confines of the prevailing investor-driven fintech model.

Fintech provides a perfect stage for fraud, theft and other illegal activities to flourish

One of the most widely circulated "common sense" claims made on behalf of the fintech model early on was that, compared with the use of cash, it would significantly reduce the extent of theft, fraud and other financial crimes. Fintech practitioners routinely used examples of cash being stolen in the street, from one's home, after leaving a bank or on a bus, and compared it against the supposed safety of financial transactions undertaken via a mobile phone or smart device. Importantly, this far-reaching claim was backed up by many mainstream economists using their standard neoclassical textbook simplifying assumptions of responsible financial agents, "efficient markets", and fraud being an exclusive act of governments.

It is, however, now increasingly accepted that the fintech sector has become subject to a growing wave of fraud and financial crime that, as even the World Bank has admitted, is a major problem. Indeed, in some scenarios, the investor-driven fintech model has created an almost perfect criminogenic environment. Thanks to its combination of empowered financial entrepreneurs, the profit motive, little or no regulation, and a client base of often misinformed individuals desperate to find a way out of poverty, this development was not unforeseen.

Fintech-based deception, theft and fraud emerged very quickly in Kenya, inevitably involving M-Pesa, before spreading right across Africa and Asia. China's unregulated fintech sector in particular gave rise to a giant wave of fraud that was only brought under control when the Chinese government intervened in 2020 to radically reshape and repurpose its financial sector.

There are now increasingly urgent calls to exert some kind of control over the wave of fraud, theft and other illegal business practices that have hit the global fintech sector. So far, with the possible exception of China, most governments have made only minor changes to the operations and regulatory structures governing the fintech sector, and even these are all too often ignored or simply circumvented by savvy fintech operators. It remains to be seen, then, to what extent this problem can be reined in.

Fintech is a form of colonial-style extractivism

Potentially the most damaging downside to the current fintech model is actually an old problem associated with capitalism but with a modern twist. Essentially, fintech represents an updated form of the brutally exploitative practices associated with European colonialism and imperialism that relied on the mining of mineral wealth (gold, silver, coal, diamonds, platinum) or control of the production and distribution of agricultural commodities (cocoa, coffee, spices). Colonialism and imperialism combined to enable the most powerful countries at the time to plunder the wealth of local communities across Africa, Asia and Latin America, and grow wealthy at their expense. More recently, the process morphed into a corporate-led form of extractivism that exploited the natural resources of the L&MICs through market, political and financial power.

By "mining" the digital financial transactions of the poor today in order to accumulate often vast financial returns, while increasingly impoverishing large numbers of their clients and undermining the chances that their communities will progress by reinvesting any surpluses, today's fintech model essentially updates the earlier extractivist processes to the same ends. Foreign-owned fintechs, in particular, have very little concern for the longer-term implications of their activities.

Investors, fintech corporations, banks and other bodies have been clamouring to enter the most lucrative markets in the L&MICs. Leading the pack are the giant US-based digital payments corporations Visa, Mastercard and PayPal, which have manoeuvred to ensure that the largest share possible of the financial transactions goes through their digital platforms. This has involved buying up as many of the best emerging fintech ventures as they can, often backed up by their respective charitable foundations. These ostensibly development-oriented charitable bodies aid the wider effort to facilitate the move to digital payments platforms which, not coincidentally, their corporate parents own and control. Barring further legal setback brought about by allegedly overcharging clients in the richer countries, these digital payments corporations expect to prosper in the coming years thanks to the expected profits generated from controlling the local financial systems in the L&MICs.

The major global banks and other financial institutions are close behind Mastercard and Visa in terms of securing their own fintech platforms in the L&MICs, such as JPMorgan Chase Bank, which has in recent years bought as many as 30 fintech platforms, most in the L&MICs.

Another way that the major fintechs are able to extract profits is by taking over government-run social grants and payments systems. Fintech platforms offer governments a way to slash their operating costs, which will theoretically free up money to address poverty. However, if investor-driven fintech platforms assume control over these digitized government payments systems, they can be used, typically after a "honeymoon" period during which they are on good behaviour, to pursue extremely lucrative "extractivist" strategies.

Further underscoring the validity of the colonial imperialist argument is the fact that several key governments in the wealthy countries have also begun to take quiet, deliberate steps to ensure that the vast profits generated by fintech operations in the L&MICs can underpin the functioning of their own economies.

For example, it is largely for this self-interested reason that the UK government has been so supportive of Vodafone expanding its activities in Africa, including maintaining its 40% stake in Kenya's Safaricom. For its part, Vodafone is also aware that its incoming dividends from such as Safaricom are useful to the UK economy. This was shown recently when Vodafone responded to the growing criticism of its low UK corporation tax payments with a publicity campaign that promoted Vodafone's infrastructure investments in the UK, which it has been able to finance using the dividends it has earned in the world's poorest countries, including in Kenya. Recognizing this, the UK government has also pushed for other UK-based fintechs to operate in L&MICs, especially in Kenya. With tacit support from the Chinese government, Ant Financial, the world's largest fintech, has also been encouraged to make major strategic foreign purchases in line with the government's economic objectives. The US government has also been quite aggressive in supporting US corporate dominance of the global fintech industry.

All these costs of the huge extractive potential of fintech raise the important question: Why are governments in the L&MICs embracing such a clear and present danger? One reason is all too familiar: it has been easy to co-opt local political and economic elites that, in return for a private share of the profits, are willing to "push from the inside" for weak regulatory and supervisory regimes to govern the fintech sector.

Increasingly driven by commercial interests and the national strategic development goals of the wealthiest countries, the fintech model has already begun to shed its superficially attractive poverty-alleviation roots. It has now morphed into a uniquely effective tool with which narrow corporate and state interests are increasingly cooperating in order to facilitate a "digital extractivist" model of exploitation in L&MICs of potentially breathtaking scale and scope. The petty financial transactions of today's global poor represent the new motherlode upon which fortunes are to be quietly extracted and appropriated by institutions based in the world's richest countries.

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The above is extracted from the report "The Promises and Perils of Investor-Driven Fintech: Forging People-Centered Alternatives" published by the Transnational Institute (February 2022). The full report, including endnotes and references, is available at https://www.tni.org/en/publication/the-promises-and-perils-of-investor-driven-fintech

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