Article

Capital & Class

Capital & Class
2021, Vol. 45(3) 347–370

DOI: 10.1177/0309816820943174
journals.sagepub.com/home/cnc
SAGE

Selling debt: Interrogating the moral claims of the financial elites in Central Asia

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Abstract

This article critically examines how banks and microfinance companies morally construed and evaluated their lending practices and income in Kazakhstan and Kyrgyzstan. Banks occupy a powerful position in a monetary economy, because they do not merely create money 'out of thin air', but can charge for it, that is, interest. In doing so, they obtain unearned income and extract wealth. The article examines how banks and microfinance companies used myths, ideals, discourses, norms and emotions to justify and de-politicise their unequal power, unearned income and damaging effects. The study draws on the moral economy perspective and the post-Keynesian theory of money to understand financial institutions' moral justifications and rationalisations of their position and power. This article contributes to a wider literature on neoliberalism and morality in post-socialist economies.

Keywords

interest, loans, moral economy, post-Soviet, unearned income

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This article critically examines how financial institutions (such as banks and microfinance institutions[1]) justify their lending practices and income from interest in Kazakhstan and Kyrgyzstan. The lenders' construals of norms and obligations are central in shaping and de-politicising the unequal social relationship between lenders and borrowers. The study draws on recent political economy scholarship on money creation to understand how credit, power and morality are intertwined (Hudson 2014; Pettifor 2017; Sayer 2015). The article aims to contribute to the literature on the moral dimensions of economic practices in developing post-Soviet economies (e.g. Hann 2018; Rudnyckyj & Osella 2017; Wiegratz 2016).

The article's entry point is that all economies are 'moral' economies (Keat 2000). Economic activities are not solely driven by the pursuit of individual self-interest, but are influenced by other moral sentiments as well as moral concerns, norms, rules, rights and discourses. Rules and norms do not merely regularise and normalise economic relations; they justify and rationalise who should do, get or control what (Sayer 2018). Financial relations are particularly important in neoliberal economies, because they expand the role of economic rent and unearned income beyond the ownership and control of land, property and utilities to money (Hudson 2014).

The moral perspective of bankers and financiers is rarely explored in social science (Ho 2012; Pelkmans & Umetbaeva 2018). Social scientists have either avoided interrogating the issue or have presumed financial activities to be already predefined immoral or amoral, even though social actors articulate moral claims to explain and justify them. Ho (2012) observes that social science is missing critical accounts of financiers' actual discourses of morality, and how they morally construe and legitimise their activities. This article contributes to the literature on debt and morality by focusing on bankers' and financiers' moral justifications, norms and beliefs for lending and interest (Graeber 2011; Hudson 2018; Sayer 2015).

This study uses the concept of 'moral economy' to examine how moral sentiments, norms and beliefs shape formal and informal economic practices and institutions, and the way these are reinforced, compromised or overridden by economic power and pressures (Sayer 2007). In addition to being an object of study, the term 'moral economy' is a kind of inquiry that embraces both analytical and evaluative modes. The moral economy approach 'analyses and assesses the fairness and justifications of actually existing economic relations and practices' (Sayer 2018: 23). As economic relations and institutions affect human flourishing and have ethical implications, social scientists cannot avoid making evaluations in terms of well-being, justice and fairness.

This article contributes to the moral economy scholarship in two ways. First, the study offers first-person evaluations of lending as right and wrong, fair and unfair, good and bad. Going beyond the usual focus on financial crisis, irrationality and fraud (Appadurai 2012; Jessop 2015; Whyte & Wiegratz 2016), it examines the moral evaluations of taken-for-granted rights and practices underpinning debt (Graeber 2011; Hudson 2018; Sayer 2015). It critically discusses the moral justifications and rationalisations of the basic features of the lender–borrower relationship, in particular property rights of money, and what banks and debtors are allowed and required to do. It assesses how financial actors construe the moral influences on their practices, and evaluate the implications on society.

Second, the study shows that power has a lot to do with the origins and maintenance of debt and a little to do with rational deliberations over its fairness and legitimacy (Hudson 2014). Banks do not merely create credit money 'out of thin air', but in charging for it extract rent (Pettifor 2017). Once interest has become an established practice, its validity is not questioned, only its amount. Lacking suitable options, individuals can normalise and acquiesce to it. Yet while debt is largely a product of power, questions of justice, fairness and well-being have to be raised and considered, otherwise there is little basis for criticising it (Sayer 2016).

The study departs from neoclassical economics that treats a loan as simply a transfer of spending power from a saver to a borrower, and banks as mere intermediaries in the process. Keen (2011b) argues that banks do not need deposits in order to lend, because by issuing a loan they can endogenously create new spending power (i.e. new deposits) without reducing savers' spending power. According to post-Keynesian theory, 'banks create money simply by an accounting operation: a loan is extended to a borrower creates both debt and spending power 'out of nothing' (Keen 2011b: 155). Banking practices are also constituted by moral norms; for instance, individuals are morally obliged to pay their debts (Hudson 2015).

Banks are an essential component of modern capitalism, in that they create and control token money, which is intrinsically worthless and is used as a means of final settlement of transactions (Graziani 1989). They possess monopoly-like power to generate and honour promises to pay that facilitate market transactions (Pettifor 2017). Extending credit to firms and households can create productive capacity for the economy, which can later be used to service the debt (Keen 2011a). But, as Minsky (1978) explains, banks are also responsible for causing excessive debt growth, asset speculation and financial instability.

Bateman (2010) observes that international financial institutions and donor organisations promoted the liberalisation of finance as one of the effective ways to combat poverty and to stimulate entrepreneurial activity, following the model of the Grameen Bank in Bangladesh. In the early stages of private banking in transition economies, money came to domestic banks and microfinance institutions through investment by foreign banks and international financial institutions, rather than household savings (Ruziev & Dow 2013). Development agencies often stipulate social missions, such as poverty reduction and rural development, as their lending criteria and expect a return on equity (Bateman 2010).

The liberalisation and deregulation of the banking sector in post-Soviet countries in the 1990s aimed to increase competition and choice in the market, in the hope of injecting much needed foreign-backed investment in fledgling economies after the collapse of the Soviet Union (Lane 2001; Ruziev & Dow 2013). The number of retail banks, microfinance institutions and pawnshops increased in Russia and Central Asia. They provided loans not only to business and middle-class groups but also to more risky and vulnerable working class and poor people (Guseva 2005; Ruziev & Midmore 2014).

In the 1990s and 2000s, United States and other Western financial institutions invested into Kazakhstan's and Kyrgyzstan's banking and non-banking sectors to fund a rapid expansion of credit, largely concentrated in petty retail trading, real estate and consumption. Kazakhstan's banks actively borrowed from abroad through syndicated loans, securitisation and issuance of bonded debt. By 2007, Kazakhstani banks amassed external debt of US$46 billion, or 44% of gross domestic product (GDP) (International Monetary Fund (IMF) 2010). In the 2000s, Kazakhstan's banking sector was the second fastest-growing sector in the economy after the oil industry (Asian Development Bank Institute 2014). Before the 2007–2008 global crisis, the banking sector consisted of privately owned financial institutions (Orazalin 2019). The crisis caused the bankruptcy of three major commercial banks. The government responded by injecting funds into troubled banks and by re-financing loans to stabilise the sector. Currently the sector has a mix of domestic-, private-, state- and foreign-owned banks.

During 2002–2007, Kyrgyzstan's banking sector also expanded strongly, with average annual asset growth of 22% and loan growth of 57%, or 40% in real terms (Asian Development Bank 2011). The total banking assets increased from 7.9 billion soms in 2002 to 178 billion soms in 2015 (National Bank of the Kyrgyz Republic 2016). Global and regional financiers benefitted from lax regulation on interest rates and debt collection, enabling them to achieve high returns on equity. In Kyrgyzstan, the average interest rate on microfinance loans was about 34% in 2014 (National Bank of the Kyrgyz Republic 2014). In 2014, there were 24 commercial banks, of which 2 were controlled by the state and the rest were either private domestic or foreign banks (International Finance Corporation (IFC) 2016). Sixteen commercial banks had foreign share capital, of these 10 had foreign shareholdings of more than 50%.

This article is divided into five sections. The section 'Ideas on morality, money and unearned income' will examine how theoretical ideas on the moral economy, money creation and rent-seeking can offer critical insights on financial relations. The section 'Research design and method' will briefly describe how the qualitative data was collected and coded. The section 'Empirical findings' will examine the data, analysing social relations and moral justifications involved in banking and non-banking sectors. The section 'Critical discussion on debt' will offer key insights on debt that emerged from the findings. Finally, the conclusion will summarise the study's key findings and ideas, and will suggest how the article has contributed to the literature on the moral economy and post-Soviet studies.

Ideas on morality, money and unearned income

The moral economy

Following the 2008 global financial crisis, debt and credit have emerged as important issues. Many studies have critically examined various aspects of the financial sector, including the negative effects of lending on household indebtedness and social inequalities (Bateman 2010; Montgomerie 2009), the disciplinary power of finance in shaping borrowers' neoliberal subjectivities (Erturk et al. 2007), the illicit role of major banks in siphoning off capital from the Global South (Cooley & Heathershaw 2017; Moore 2012), and the significance of finance in creating rentier-style capitalism (Hudson 2014; Standing 2016).

The Foucauldian literature around the disciplinary power of finance examines how governmental technologies and procedures have organised and regulated 'proper' economies for a well-functioning international financial system (Vestergaard 2004, 2009). The

IMF and the World Bank have developed a comprehensive system of standards and codes of good practices to ensure that capital has spatial freedom. Market order and freedoms do not evolve naturally or spontaneously, but require disciplinary power to normalise judgements and human conduct through mechanisms of surveillance and punishment. Vestergaard (2004) argues, 'The efforts to "strengthen the international financial system" constitute a panopticism at the level of the world economy' (p. 818).

The moral economy literature goes beyond questions of how economies are socially constructed by market discourses and power. It does not merely describe and explain economies as sets of social relations and practices, but evaluate them on moral and ethical grounds. It brings together positive and normative modes of inquiry to produce thick ethical descriptions (Sayer 2007). Normative reasoning cannot be divorced from explanatory accounts of the world.

There are three ways in which economic institutions and processes are partly constituted by, and are in tension with, moral concerns, norms, beliefs and justifications. First, economic relations and roles have a constitutive moral dimension, in that people have ideas on what are their rights and responsibilities, what constitutes reasonable or unreasonable behaviour, how roles should be performed, and what appropriate conditions and circumstances are supposed to exist (Sayer 2007). Once basic economic institutions and relationships have become established, normative questions are forgotten as practices become normalised and accepted (Sayer 2016). Their continued existence scarcely requires public moral deliberations or justifications, having become de-politicised and naturalised and treated as 'facts of life'. Established economic arrangements are viewed as how things are and what people deserve, as in the 'belief in a just world'.

Property rights are important in shaping and naturalising moral economies. For instance, Marcuse (1996) observes that in the Soviet Union 'that part of the bundle of rights that is the right to dispose at a profit, or the right to speculate, did not exist in Soviet law' (p. 136). Rent, interest and speculative gains were 'non-labour' income, and were condemned and not permitted. After the collapse of the Soviet Union, constitutions and legislations provided the protection of private property and its disposition by its owners' free-of-state control. The re-bundling of rights to allow property owners to dispose of their assets without state restrictions was explained and justified by international financial institutions as how 'free markets' work.

Nevertheless, in times of crises and discontent people's faith in established institutions and norms can break, and find visible expressions through protests and counterpublics. During such crises powerful groups are involved in a continuous effort to secure the necessary acceptance for dominant institutions, and to create a perception of legitimacy (Fairclough & Fairclough 2012). They provide reasons to adhere to established practices, to ensure unequal social relationships are described in legitimising ways, to fend off questions of validity of economic institutions, and to de-legitimise opposition and alternatives to the economic order. Their rationales primarily serve as rationalisations of their position and power (Fairclough & Fairclough 2012).

Second, economic relations are contingently affected by people having some understanding of others' situation, a degree of propriety, and some awareness of what kind of relations and things are conducive to well-being (Sayer 2007). For instance, Rudnyckyj and Osella (2017) argue that novel forms of consumption, production, finance and philanthropy in the Global South are being elicited and reproduced through religious discourses that reconfigure such actions as an ethical duty. In Muslim-majority countries, halal-certified goods, Islamic banking and *sadaqa* (voluntary charity) are seen as an inward cultivation of godly devotion and an outward expression of piety. In her study on Islamic businesses in Kyrgyzstan and Kazakhstan, Botoeva (2018) describes how pious entrepreneurs are switching from conventional to Sharia-compliant modes of operation.

Moral emotions, virtues and qualities, however partial or imperfect, are the pre-conditions of economic practices. Though social inequalities and economic pressures can affect people's fellow-feelings, moral sentiments and judgements of others' motives and actions (Smith 1976) For instance, powerful actors can come to view disadvantaged and poor groups as undeserving of sympathy and assistance, because the latter lack skills, knowledge and resources to warrant social recognition and respect. Competitive markets can accentuate traders' self-interest, as well as their sensitivity to customers' wants and desires.

People become habituated to care about some things of value (e.g. kinship, career and religion), and not for others (Sayer 2011). But these values and concerns can be re-assessed in situations of economic and social crisis (Archer 2000). Established economic practices can be re-evaluated and re-politicised in light of changing values, although people can also be unwilling or unable to challenge the economic orthodoxy, because of vested interests, petty selfishness, resignation, lack of alternatives, myopia, forgetfulness, apathy and the sheer messiness of everyday life. For instance, pious Muslims may desire Sharia-compliant finance, but find it too difficult to arrange.

Third, evaluating moral consequences is as important as understanding moral justifications and influences on economic practices (Sayer 2007). While economic relations and practices can be shaped by meanings and motivations, they have innumerable unintended consequences. These consequences are likely to affect people's well-being, and can be categorised as positive, negative and perverse. Outcomes are open to ethical evaluations and regulation, because of their ethical implications. For example, environmental activists demand strict controls on industries to limit their carbon emissions in order to save the planet.

People's relation to the world is one of concern. They continually have to monitor and evaluate how the things they care about are faring and what to do next (Sayer 2011). But their ability to evaluate economic practices can be limited by economic pressure to survive in a competitive environment. Short-term financial concerns can be prioritised over long-term social ones. While intended and unintended consequences are vital in evaluating and justifying economic institutions, people can also appeal to other criteria, such as need, desert, justice and the environment.

Production of money and unearned income

Heterodox economists (such as Hudson 2014; Keen 2011a; Pettifor 2017) criticise neo-classical macroeconomics for failing to incorporate banks and money into economic analysis and modelling. They reject claims that money is neutral, banks are mere intermediaries between savers and borrowers, and bank lending is controlled by a reserve requirement set by central banks. Instead they maintain that the banking sector endogenously creates money and credit, and thereby affect investment, economic growth and financial instability (Minsky 1978).

Banks occupy a unique position in a monetary economy, because they create and control money (Graziani 1989). Money is a bank's promise to its customers based on trust, rather than backed by anything physical. A monetary payment is a transfer of that promise from one customer to another (Keen 2015). Although neoclassical economists assume that an economic transaction is a bilateral exchange between a buyer and a seller, in reality all transactions are triangular involving at least a payer, a payee and a bank.

Keen (2011a) and Pettifor (2017) debunk a popular myth that money is created through a money multiplier. According to this view, the government creates 'fiat' money by printing notes and coins, and then gives them to individuals. They then deposit the money into their bank accounts. Banks keep a fraction of the deposit as reserves determined by the central bank, and lend excess reserves to borrowers. The borrowers in turn deposit the loaned money into their banks, creating new reserves and loans and further deposits. The process stops when the excess reserves fall to zero. This model assumes banks need excess reserves before they can lend out.

Contrary to the money multiplier model, where base money is created before credit money, Moore (1984: 9) cites Holmes (1969: 73) to argue that '[i]n the real world banks extend credit, creating deposits in the process, and look for the reserves later'. The direction of causality is precisely the opposite that is held by the neoclassical view. Keen (2011a) explains that in extending new loans, banks simultaneously create new deposits. If this generates a need for new reserves, then banks can turn to the central bank as a lender of last resort to supply them. Otherwise banks are forced to recall loans, resulting in a credit crunch (Keen 2011a).

Pettifor (2014) criticises the assumptions of mainstream monetary economics that money exists as a consequence of economic activity, and that lending equals savings. Instead, deposits and savings are a consequence of the creation of credit money. Applications for loans result in the creation of deposits, and this stimulates investment, economic activity, employment and income. According to Schumpeter (1934), banks can create new purchasing power (credit money) 'out of nothing' to finance entrepreneurial investment without transferring funds from savers to borrowers. Lending is determined by the risk of default and whether borrowers have sufficient collateral, rather than restricted to existing savings. Pettifor (2014) notes that the effects of limiting lending to existing savings would be to raise interest rates, and to contract economic activity.

Banks can create credit money through a deceptively simple double-entry bookkeeping system (Keen 2009).[2] Banks occupy a powerful position in a monetary economy, not merely because they can create money but can charge for it – that is, interest (Hudson 2014; Sayer 2015). In doing so, they can 'get something for nothing'. Pettifor (2017) observes that banks can create money by entering numbers into a computer, and can obtain a promise to repay at a certain interest rate. Money and interest are both social constructs, based primarily and ultimately on trust and power (Pettifor 2017).

Classical political economy makes an important distinction between earned and unearned income (Hobson 1937; Tawney 1921). Earned income is what waged and salaried employees and self-employed people get for contributing to the provision of goods and services that others use (Sayer 2016). Unearned income is not conditional on contributing to the production of new goods and services, but is extracted on the basis of unequal ownership and control of scarce assets, including land and money. Banks can receive unearned income by virtue of property rights that legally entitle them to create and control money, which others lack but need and want. Banks' costs of production of new credit money are negligible, and so the principal and interest are unearned income. This is a significant moral aspect of money creation in the modern economy.

As Sayer (2016) observes, mere ownership of assets produces nothing, but can be used to extract rent from others. Just as landowners can charge rent on land on the basis of monopoly-like power, Pettifor (2017) argues that interest is rent on money that allows banks to make vast capital gains by siphoning rent (interest) from debt. In strengthening the power and property rights of the asset-rich (or the rentier class), neoliberalism has promoted unearned income and rent extraction (Hudson 2015). Unearned income is a deadweight cost on the economy, reducing social welfare and productive capacity.

Clearly it is interest not credit that is the economic and moral problem. Credit oils the wheels of production and commerce. It covers temporary gaps between organisations' expenditure and revenues, funds public and private large-scale, long-term investments, and brings forward people's consumption and purchases (Sayer 2015). Moreover credit money can be good in situations where social actors would otherwise be dependent on savings and reserves. Access to credit also undermines the monopoly of lenders of existing money. But the benefits of credit are diminished by interest charges, which add to deadweight costs. Private commercial banks have quasi-monopoly power to create interest-bearing credit money that allow owners and shareholders to obtain unearned income.

In addition to property rights, banking relations and practices are partly constituted by myths, norms, sentiments, discourses, justifications and rationalisations that over time normalise and de-politicise banks' unequal power, unearned income and damaging effects. For instance, financiers and neoclassical economists often reproduce the myth of lending savings to justify and legitimise banks' unearned income (Keen 2011a; Pettifor 2017). In doing so, interest can be rationalised as just income for savers' abstinence, and as 'deserving' income for banks' financial and administrative costs (Sayer 2015).

Hudson (2015) observes that paying one's debts is portrayed a moral and legal right that locks borrowers into financial servitude to banks. Borrowers are expected to have a personal ethic of responsibility, and to honour their promise to banks to pay their debts despite experiencing personal hardship. Graeber (2011) argues that paying one's debts has come to seem the very definition of morality. Banks call on borrowers to be morally responsible, using shame, guilt and honour to deter default. By contrast, 'irresponsible' debtors are seen to lack moral discipline and integrity. Popular morality blames them for going into debt, depicting them as being immoderate and greedy, while banks avoid moral criticisms of 'irresponsible' lending and debt peonage (Hudson 2015, 2018).

As Sayer (2016) notes, the neoliberal discourse frames market relations as formally equal and voluntary, and economic actors as free choosers. The discourse focuses on individual liberty and choice, and reduces economic relations to transactions between free-standing individuals pursuing their self-interest. Troubled borrowers are characterised as poor decision-makers (Erturk et al. 2007). They are abstracted from their social positions, in which they often act under duress facing weak options. The discourse serves to abstract borrowers from their unequal social relationship, and to justify exploitative practices in terms of individual rights and responsibilities.

Research design and method

The study used purposive sampling to recruit participants (Bryman 2012). The authors and several research assistants sent emails and rang banks and microfinance companies requesting their participation in the study. Then requests were made to international financial institutions, state officials and trade associations. Most of the participants were recruited in this way. The study then used snowball sampling to recruit the remaining participants.

The study was based on semi-structured interviews, which the authors conducted in Almaty, Astana and Bishkek. The sample consisted of 28 participants: 12 banks, 1 micro-credit company, 9 international financial institutions, 4 government ministries and agencies, and 2 trade associations. The sample size reflected the methodological aim to gather rich and detailed qualitative data through in-depth interviews (Smith & Elger 2014). At the start of the interviews, the participants consented to be recorded, and were assured that the data would be anonymised and stored in password-protected files. The interviewees were assured of confidentiality, and their names have been pseudonymised.

Many interviews were conducted in Russian and some in English, and each interview lasted on average 45 minutes (ranging from 30 minutes to 90 minutes). The interview questions examined how the financial elites and state and non-state actors evaluated lending practices, what moral discourses and norms predominated their understandings, and what economic pressures shaped their judgements. The interviewees were encouraged to discuss the values, beliefs, norms and rights that shape the banking sector.

The interviews were digitally recorded, and then were transcribed and translated into English. The authors read the transcripts several times to understand what themes were emerging (Silverman 2011). While some initial codes were derived from the authors' theoretical ideas on finance and morality, others emerged unexpectedly from the interview data. In this way, the authors avoided their preconceptions distorting their interpretation of the data (Fletcher 2017).

The codes were changed, eliminated and supplemented as the data warranted until every piece of text was coded (Fletcher 2017). Some codes were re-coded into theoretical-informed categories that allowed for greater conceptual clarity. In total, there were 29 codes. NVivo 10 computer software was used to code the data (Bazeley & Jackson 2013).

Several key codes such as 'justifications', 'modernity', obligation to repay', 'social mission' and 'reciprocal norm' were used to analyse how banks and other actors morally evaluated lending practices. The analysis revealed many similarities and some differences among the participants' evaluations. Other codes, including 'anti-bank protests', 'Islamic finance',[3] 'regulation' and 'economic problems', were also developed, but they were not used for this article. At the end of the coding stage, the authors wrote extended notes on each code to develop their analytic thinking (Rapley 2011).

The study's overall research question was as to how did financiers, in particular banks, morally evaluate lending practices. There were also two sub-questions: (1) What moral ideals, discourses, norms and rights were used to make such evaluations? (2) How were economic pressures and power understood?

Empirical findings

Social mission and market ethics of lending

Bateman (2010) argues that one of the abiding myths of micro-loans is that they fulfil the social mission of serving the poor. International agencies view micro-loans as a catalyst for a sustainable 'bottom-up' economic and social development. They channel credit to local banks and microfinance companies to disburse to poor and disadvantaged groups to establish and expand microenterprises and self-employment (e.g. cross-border shuttle trade), and to promote gender empowerment and community development. In the study, several banks described how donors worked in partnership with them to support women microenterprises, poverty reduction and rural development. For instance, Tanya, a senior manager at a Kyrgyzstan's bank, explained,

> We've a partnership with the Asian Development Bank, and it's a programme for women entrepreneurs . . . During our history we've had special programmes with the International Finance Corporation and have started to work with KIVA social lending platform . . . Most of our social investors have special social targets. In our portfolio we've more than 46% women borrowers. It's our social target.

Tanya's bank had received a significant amount of credit from international agencies to target specific vulnerable groups, in particular female entrepreneurs in rural areas. Special loan programmes shaped banks' lending criteria to satisfy donors' social mission and values. In the context of patriarchy in developing countries, providing opportunities for women to participate in the business sector is an important development goal for donors (Bateman 2010). Micro-loans can improve women's confidence and business acumen, thereby empowering them in society. As agents of social change, banks and microfinance companies can develop an enterprise culture, and can tackle gender inequalities.

But there is growing evidence of 'mission drift' in the micro-lending sector (Bateman 2010). Commercialisation veers organisations away from their original mission to reduce poverty towards strategies to maximise profit. In Kyrgyzstan, three major non-governmental organisation (NGO) microfinance agencies – Bai Tushum, Finca and Companion – became commercial private banks (Hasanova 2018). They were lured by the potential to expand their loan portfolio beyond donor-sponsored micro-loans, and to pursue more lucrative markets, such as consumer loans to the urban middle class. Some participants in the study explained the tensions between social and economic goals, as Tanya, whose bank used to be an NGO microfinance agency, observed:

> As we're a commercial organisation, we should make a profit but . . . also we've social goals and we've special programmes with international organisations . . . Of course, we've to be profitable. Of course, we should be profitable!

Tanya's organisation had moved away from being merely a vehicle for donors to achieve their social goals. As a commercial enterprise, it was imperative to make a profit.

The social mission had become secondary to maximising profit. As Sayer (2007) notes, social and moral values can be compromised or overridden by economic pressures and interests.

Hirschman (1982) argues that markets can be a benign force that tames wild passions, and liberates society from traditional bonds to achieve material improvements. But equally ascriptive relationships and customs can limit the beneficial effects of markets. Several interviewees described how banks and microfinance companies were trying to civilise and discipline borrowers by tackling cultural attitudes and practices. Jyldyz, a senior manager at the IFC, maintained that market virtues of prudence and punctuality were important for the financial sector, but were difficult to cultivate among the Kyrgyz population:

> We've developed a calendar for [borrowers] . . . this teaches them to consider many issues like seasonality of business, of harvest and expenses. Our main message is saving, say to the people that you should save . . . You know, Kyrgyz people spend a lot of money on marriages, funerals and births because they're driven by traditions . . . It's a mindset, it's a cultural thing we're nomadic . . . Historically we didn't have clocks and we're not strict on time and that's why Kyrgyz people aren't disciplined in repaying because it goes back to the roots plus cultural ceremonies.

Jyldyz felt that banking operations were shackled by lack of clock time discipline and traditional obligations of lavish life-cycle ceremonies, resulting in many families struggling to save and repay loans. Jyldyz's organisation ran educational and media campaigns, especially in rural areas, to warn people of the dangers of extravagant and carefree spending and to promote virtues such as prudence and punctuality.

Most interviewees construed banks and microfinance companies as civilising and moralising agents. Lenders tried to educate and regulate borrowers to become industrious, honest and disciplined, and not to damage their trust- and credit-worthiness. In their research, Pelkmans and Umetbaeva (2018) also found that informal moneylenders saw themselves as pioneers on a civilising mission to tame chaotic spaces on the capitalist frontier.

Booth (1994) explains that liberal markets can foster moral values, including formal equality, autonomy and freedom. Market actors are free from hierarchal and ascriptive relationships, and can formally access resources in pursuit of their projects. In our research, several banks favourably evaluated and compared the market mechanism of allocating credit to alternative arrangements, such as Islamic banking and rotating savings and credit associations. Islamic values and finance were characterised as opposing women's economic participation, freedom and equality:

> Our women don't wear burkas. 55% of our employees are women, and 51% of our clients are women. They're working or have a business . . . Women in Kyrgyzstan are very independent, and traditional Islam is not practised here. (Elnura, a bank director in Kyrgyzstan)

> All banks operate on [market principles], and there's only one bank that operates according to Islamic finance . . . Islamic principles aren't suitable for us. We don't have such fanatical beliefs.

> We've to defend the values of our country and the market. (Gulmira, a bank director in Kyrgyzstan)

For Elnura, the market system had expanded women's freedoms and autonomy. Gulmira construed liberal markets as beneficial for society, and believed Islamic principles to be harmful. Most participants evaluated market-based lending to be fair, in that a vast majority of the population could access credit (see Pettifor 2017). Islamic banking had limited presence in Central Asia, and was seen to diminish women's economic autonomy (cp. Botoeva 2018; Hoggarth 2016). Rotating savings and credit associations in Central Asia were exclusive organisations, because members were selected on the basis of high income and social status (Kuehnast & Dudwick 2002).

But markets can equally undermine moral values essential for their success (Hirschman 1982). The pursuit of profit can foster a culture of dishonesty and corruption (Wiegratz 2016). Bateman (2010: 55) observes that competitive commercial pressures can force moneylenders to 'pressure and hoodwink their clients in order to obtain new business', calling this 'a very serious case of "mission drift"'. Several interviewees framed incidents of negligence, dishonesty or fraud as aberrations committed by a few poorly educated or greedy individuals, rather than as widespread and routine phenomena. It was an article of faith that markets had largely civilising and beneficial effects on people and society.

In one complex case of malfeasance, several employees at a Kyrgyzstan's bank branch were accused of unlawful financial dealings. They had authorised loans to sub-prime borrowers, whose applications should have been denied because they had bad credit records. Recognising the damage to its reputation and business, the bank tried to blame a junior employee for the fraud and to dismiss the incident as an anomaly, as Asel, one of the bank directors, claimed,

> There was a case of fraud with one of our employees . . . But the borrowers must also accept responsibility because they signed contracts knowing that the employee's scheme was fraudulent . . . The incident of fraud was uncommon . . . The bank has made concessions to the borrowers, and their loans have been prolonged for 6-8 months and the interest rates have been reduced from 32% to 18%.

In explaining the fraud, Asel pointed to an individual employee's wrongdoing, and criticised the borrowers' moral character. Asel's narrative preserved her belief in the efficacy and efficiency of the market, and justified the revised loan repayments. Wiegratz (2016) argues that business leaders are likely to construe fraud as greed, individual freedom and self-interest gone too far, rather than as systemic and pervasive in a neoliberalising society. Erturk et al. (2007) observe that financial problems are usually attributed to market actors' lack of skills, knowledge and discipline, rather than arising from commercial pressures.

Cultural norms and liberal discourses of lending

Ho (2012) argues that the culture and morality of the financial sector can be complicit with, not antithetical to, mainstream cultural assumptions and norms. Financial understandings of morality can connect with larger cultural narratives of economy and society.

Several participants emphasised that moneylending reflected a general norm and acceptance of commodity exchanges to make a profit. Alima, a senior manager at a Kazakhstan's bank, countered accusations that banks overcharged for loans by noting that they also had to attract funds:

> Banks have not only to give credits, but also get deposits. The difference between credit and deposit interest rates is the bank's income. Banks also have additional costs. This is fair.

Alima observed that banks' income was the difference between attracting and lending money. It reflected a wider economic culture of trading and marking-up products to cover costs plus more to make a profit. Tanya compared lending with other forms of buying and selling, such as livestock trade:

> One person buys a cow and then sells it. Then another person re-sells it. Re-selling is very common in our economy, it's our mentality of buying and selling, and re-selling.

Moneylending and cattle trading were both examples of a generalised form of commodity exchange. Moneylending was construed as normal, natural and mundane, and as indistinguishable from other forms of buying and selling. When the Soviet Union collapsed, property rights were re-bundled to permit the right to dispose at a profit (Marcuse 1996). This legalised and justified speculation and non-labour income (rent, interest and capital gains). Commodity exchanges and the associated transfers of property rights and money have been widely accepted and practised (Sanghera and Satybaldieva 2009).

Ferguson (2009) observes that international financial institutions have implemented economic and legal reforms to ensure that 'markets', defined narrowly in terms of routinised buying and selling under competitive conditions, have become an established economic institution. Sayer (2016) argues that while powerful actors may ensure that their economic activities are described in legitimising ways, it is the established order of things that is the major factor in their acceptance. As Bourdieu (2000) notes, submission is less a product of conscious consent or force of ideas than a tacit and practical belief that becomes self-evident and common sense in the context of bodily habituation and lack of alternatives.

Although moneylending can be complicit with neoliberal cultural norms of making money (Wiegratz 2016), it is qualitatively distinct from most forms of economic activity. Lenders' income is extractive, meaning that they are dependent on borrowers to produce goods and services, and to generate a surplus, which is partly siphoned off through interest. In the research, several banks described how their income was derived from others' enterprise and labour:

> Entrepreneurs make a profit, and we take a small part of their profit. If an entrepreneur makes five tenges [national currency] on a notebook, and we took five tenges, it makes no sense for him to take out a loan. But profits of our clients are quite high, their profits are more than our interest rate. (Dina, a bank director in Kazakhstan)

> It's clients' problem to find markets [for their products]. For them, to find a market is the most important thing. . . . If they get a loan, they feed us. . . . I tell them 'Thanks to you, we exist!' Honestly how much profit we have is only thanks to our clients. (Medina, a bank director in Kyrgyzstan)

Dina and Medina explained how banks extracted income produced by entrepreneurs and traders, while contributing little to nothing to the production and distribution of goods and services. It is by virtue of property rights that legally entitle banks and microfinance companies to create and control money, which borrowers lack but need and want, that they can charge rent on money – that is, interest (Sayer 2015). Their income is based on power, rather than on deliberations on what might be morally justified, 'deserving' or 'earned'. By contrast, self-employed people and employees directly or indirectly contribute to the provision of goods and services that others use, and can be said to 'earn' their income.

The discourse of consumer choice and individual autonomy is central to the liberal celebration of 'the market'. Markets allow people to exercise judgement without being gullible or deferential to authority (O'Neill 1998). Drawing on the discourse, several participants argued that borrowers had to take responsibility for their choices:

> It's a choice. Nobody forces a person to take a loan. A borrower himself agrees to all the conditions. So it's absolutely unfair to blame somebody else because he agreed to the conditions. (Alima)

In emphasising borrowers' freedom and consent, Alima rejected accusations that loan contracts were unfair. The liberal discourse defends the market as a sphere of voluntary uncoerced contracts between free, equal and autonomous agents (O'Neill 1998). Moreover, in the transition from the Soviet command economy to a market economy, liberals celebrated 'the market' for shifting decision-making powers from central planning authorities to individual market actors. Paternalism and elitism are rejected in favour of market choice and autonomy that allow individuals to shape their own lives (O'Neill 1998).

In the abstract, markets can operate according to liberal principles of equality and freedom, but in concrete situations contracting parties are likely to be unequal in power, resulting in exploitation and injustice (O'Neill 1998). Some interviewees explained that high interest rates and strict enforcement reflected banks' power over borrowers in Central Asia. Nurlan, a senior manager of a regional development bank, observed that Kyrgyzstan's borrowers had no choice but to accept market rates:

> It's good for banks and bad for people. Banks earn the money people are losing. People don't have a choice, and practically all the banks are charging the same high interest rate. People don't have a choice, they get microcredit and are charged 60% or maybe 90%. It's terrible. It's a robbery.

Nurlan maintained that banks had the market power to control interest rates, and they received considerable income by siphoning interest from debt. The banks' ownership and control of money allows them to take advantage of borrowers' dependence, and to extract unearned income (Sayer 2015). Unable to be autonomous individuals or free choosers, borrowers are likely to act under duress within the unequal and dependent relationship with banks.

Sanctity and myths of lending

Graeber (2011) argues that the modern understanding on the morality of debt involves accepting one's responsibilities, fulfilling one's obligations to others and paying one's debt. Immorality consists of shirking one's responsibilities, reneging on a promise and refusing to pay a debt. Many participants believed that borrowers had to honour their contractual promise, and threatened legal action against those who failed to do so:

> The government will never forgive loans. It's people's obligation [to pay back], it's their responsibility. They can take the loan, but they've to be responsible. (Jyldyz)

> If [borrowers] delay re-payments or don't make payments, we'll take them to the court. We'll make sure that they will pay their debts. (Asel)

Jyldyz and Asel believed that borrowers had a personal ethic of responsibility. Paying one's debt was construed as moral behaviour (Graeber 2011). When borrowers reneged on their promise, the courts adjudicated against them, forcing them to comply. In cases of contract violation, Central Asian judges tend to uphold powerful owners' property rights against disadvantaged groups' needs and well-being (Sanghera 2000). The rule of law and the security of private property are used to promote the sanctity of contracts and debt claims (Hudson 2017).

But the morality of paying debts is not necessarily justice, if powerful creditors become enriched at the expense of impoverishing debtors, who have to cut back on necessities, migrate or possibly revolt (Hudson 2017). Rather than construing debt repayments as a moral imperative (i.e. the sanctity of debt claims and the obligation to repay), the overall consequences can be morally evaluated (Sayer 2015). Several interviewees recognised the negative effects of repayments on people's well-being. For instance, Maxim, a director of an association of microfinance companies in Kyrgyzstan, observed:

> The [borrowers] are very disciplined to pay back the loans because they've a particular mentality and tradition, but at the cost [of] sacrificing their food security, education and health . . . People are making their repayments on time but are cutting back on essential goods. This obviously causes them immense misery.

Maxim explained how borrowers felt obligated to honour their promises under a threat of legal action. As a consequence of reducing household expenditure to repay loans, people's well-being was damaged. Graeber (2011) maintains that accepting one's responsibilities and fulfilling one's obligations can result in harm and suffering for much of the population. Moreover, as repayments come from those who have less money to those who have more money than they need, social inequalities can be exacerbated. Interest rate is a regressive, unjust and hidden form of redistribution of income (Bateman 2010; Hudson 2015; Kennedy 1995; Sayer 2015; Tawney 1921).

In addition, high interest rates can deter productive investment, and can have deflationary effects on the economy (Hudson 2014). To achieve sustained economic growth, businesses and households require credit to cover temporary gaps between outgoings and revenues to prevent disruptions to the circuits of production and exchange (Sayer 2015). While credit is useful for the economy, interest is damaging. In the study, many banks explained that high costs of borrowing discouraged productive capital investment:

> Some of our customers wanted to build brick-making factories and processing plants for agricultural products, but the returns were over a long term and we've very high interest rates, so we weren't interested. (Medina)

Medina understood that it was unprofitable for businesses to borrow at high interest for long-term productive investments. Hudson (2014) explains that interest can cause debt deflation, as loan repayments reduce aggregate demand and productive capacity in the economy. The higher the interest rate the lower the beneficial consequences for the population.

A popular myth articulated by banks and neoclassical economists is that a loan is a transfer of money from a saver to a borrower and that banks are intermediaries in the process (Keen 2011b; Pettifor 2017). This justifies interest as a reward for savers' abstinence, and as revenue to cover banks' operating costs (Sayer 2015). Several banks in the research described how savers' deposits became loans:

> Grandmothers and retired people entrust us with their money . . . They come here with their good money, worked all their life, and want a worthy pension . . . If [a borrower] doesn't pay off the loan, we can sell the collateral and refund the money to the grandmother . . . We must meet our obligations to the grandmother. (Medina)

Medina characterised banks as brokers between savers and borrowers. They also had a moral obligation to return money with interest to savers, who were viewed as vulnerable and needy individuals. This representation of savers as a 'deserving' group helped to rationalise and de-politicise high interest rates and intimidating debt recovery tactics.

In reality, development agencies (e.g. the European Bank of Reconstruction and Development and the Russian-Kyrgyz Development Fund) as well as foreign banks have invested significant capital in the financial sector in the region (Charman 2007). For instance, Jyldyz explained that IFC had provided direct financing to major banks in Kyrgyzstan:

> We've been investing in commercial banks and microfinance organisations. Half of our investment has gone to the financial sector. Among our clients are KICB and DemirBank . . . We've also invested in Bai Tushum, Finca and Companion.

IFC provided both capital and technical support to establish and develop the financial sector. It is a misconception that commercial banks wait for ordinary savers' deposits to come in to lend out. They can attract funds (often denominated in US$) from wealthy and powerful institutional and foreign investors. They can also create money by electronically typing money into borrowers' accounts, thereby generating both liabilities and assets in equal amount (Keen 2011a). In creating money, banks are largely limited by the viability of applicants' business plans.

Banks and microfinance companies can use popular myths to deflect criticisms of their practices. They evade critical scrutiny of how money is obtained, created and 'invested' in the economy, and how they are 'rewarded' for controlling it (Bateman 2010; Hudson 2015; Pettifor 2017; Sayer 2015). The myths can rationalise and conceal the power and domination creditors have over money, the economy and the population.

Critical discussion on debt

In the study the interviewees articulated moral discourses, norms and myths to counter accusations of usurious and predatory lending.[4] But critically, the moral construals and myths de-politicised and normalised the unequal relationship between lenders and borrowers. The participants tended to offer accounts of credit that disregarded power and class by abstracting market actors from their social context, and assigning them individual rights and obligations. The nature of debt belied the neoliberal rhetoric of consumer choice, market freedom and enterprise culture.

Debt is a social relationship that involves economic dependency and power (Sayer 2016). Borrowers lack and need money, which lenders have ownership and control of. Some interviewees recognised that lenders took advantage of borrowers' dependence to impose onerous contracts. Debtors had little choice but to accept exorbitant charges and to collateralise assets. They also bore much of the risks. Repayments were fixed irrespective of a change in personal or economic circumstances, and creditors threatened to seize and dispose of collateral in cases of default.

Lenders' income is unearned, meaning that they can siphon interest from debt without contributing to wealth creation (Sayer 2015; Tawney 1921). Their mere ownership of money produces nothing, but the power and sanctity of property rights and debt claims allow them to extract income (Hudson 2017). Several interviewees described how creditors profited from debtors' labour, enterprise and austerity. The debt relationship became regularised, normalised and accepted in the context of inadequate options, establishing itself as part of the order of things without much ethical scrutiny (Bourdieu 2000).

Interest is a net flow of income from debtors to creditors, from the relatively poor to the relatively rich (Kennedy 1995). Although donor-sponsored micro-loans sought to address social goals, debt involved a transfer of income from the weak to the strong. Some participants in the study explained how poor families experienced social misery, because household expenditure was reduced to make repayments. As a hidden redistributive mechanism, interest was responsible for exacerbating social inequalities and suffering.

Hobson (1937) and Tawney (1921) make an important moral economic distinction between property, which is actively used by owners to provide goods or services that would not otherwise exist, and 'improperty', which is used by owners not as means of production or 'means of work but as an instrument for the acquisition of gain' (Tawney 1921: 65–66). The study showed how money had become improperty, in that banks created and used credit money to extract income. Lenders were dependent on debtors to produce goods and services, and to generate a surplus, which was partly siphoned off through interest. In so doing, banks acquired unearned income.

Conclusion

The purpose of the study was to examine how banks and microfinance companies morally construed and evaluated lending practices. It particularly wanted to investigate what moral ideals, discourses, norms, rights and myths shaped their understanding of the relationship between lenders and borrowers. The study sought to reveal how moral justifications and rationalisations were integral to unequal social and economic relationships between people.

The study found that the participants often understood and evaluated the lender–borrower relationship using abstract liberal market principles and ethics in three ways. First, many participants construed themselves as civilising and moral agents, who fostered liberal values of equality, autonomy and freedom (Booth 1994; Hirschman 1982; Pelkmans & Umetbaeva 2018). The market mechanism was favourably compared and evaluated to alternative arrangements of allocating credit. The market allowed people to formally access credit in pursuit of their projects. By contrast, rotating savings and credit associations involved hierarchal and ascriptive relationships that excluded marginalised and poor groups, and Islamic banking was seen to diminish women's economic autonomy.

Second, most interviewees celebrated the credit market as an arena of consumer choice and freedom (O'Neill 1998). Middle-class groups tended to perceive the post-Soviet transition to a market economy as a shift of decision-making powers from central authorities to individual actors (Sanghera and Satybaldieva 2009). People were free from paternalistic state planning controls. Borrowers were characterised as free choosers, who exercised personal liberty and responsibility in taking out a loan. Their contractual relationship with lenders was voluntary and consensual. Market loans allowed borrowers to shape their own lives.

The participants in the study were very privileged middle-class actors, and bank clients were also likely to be middle-class individuals. A significant share of the total bank loan portfolio consisted of dollar-denominated mortgages, which were issued to borrowers to purchase apartments (Ruziev & Majidov 2013). During the 2001–2007 housing bubble in Kazakhstan, the middle-class dream of homeownership enabled banks to extract rent through mortgage interest. But repayments became unmanageable for many borrowers, because of inflated property prices and the depreciation of the national currency against the dollar, especially after the 2007–2008 global financial crisis. In Kazakhstan and Kyrgyzstan, rising debt and repossessions sparked waves of protests against banks and governments.

By contrast, rural households usually borrowed small amounts (less than US$1,000) from microfinance institutions, which charged higher interest rates than commercial banks (Angioloni et al. 2018). During the first decade of the 2000s, microfinance was the main source of credit for rural borrowers, especially in Kyrgyzstan. Many of them were issued loans to start a business venture, enticed by the hope of becoming successful entrepreneurs. But high interest rates and low entry barriers meant that most of them struggled to survive and make a profit (Bateman 2010).

Third, most participants in the study rejected the idea of debt forgiveness, and promoted the sanctity of contracts and debt claims (Hudson 2017). Despite the negative consequences on their families' well-being, borrowers were expected to fulfil their obligations and pay their debts (Graeber 2011). When borrowers had reneged on their promise to repay, the use of intimidating and threatening debt recovery tactics was rationalised to defend the rule of law. The courts were duty-bound to protect creditors' property rights over money, and to correct contractual violations (Weinrib 2002).

This article has contributed to the moral economy scholarship. It provided a critical and qualitative research on how banks and microfinance institutions actually understood morality, and how they morally construed and legitimised their activities (Ho 2012; Pelkmans & Umetbaeva 2018). Their moral evaluations justified and normalised exorbitant interest rates and unearned income, and de-politicised social inequalities and suffering (Hudson 2017; Sayer 2015).

The study also examined how property rights and power were vital. The post-Soviet legal system re-bundled property rights to permit speculation, non-labour or unearned income and improperty (Marcuse 1996; Sanghera 2020). The judiciary authorised and protected creditors' right to siphon interest from mere ownership of money. In situations of default, the courts construed borrowers as wrongdoers and lenders as sufferers, and in so doing corrected the 'injustice' inflicted by the former on the latter (Weinrib 2002). Frederic Bastiat (1996) describes how wealth extraction involves legal and moral resources, 'When plunder has become a way of life for a group of men living together in society, they create for themselves in the course of time a legal system that authorises it and a moral code that glorifies it' (p. 130).

In addition, the article contributed to post-socialist studies. It critically examined the role of financial institutions in creating post-Soviet economies where economic rent has become a significant form of obtaining income, alongside earning income through production and wealth creation (Mihalyi & Szelenyi 2017; Sanghera 2016; Sanghera and Satybaldieva forthcoming). Neoliberalism did not merely support privatisation and marketisation in post-Soviet economies, but re-bundled property rights, created unequal ownership and control of scarce assets, and expanded the role of rent.

The neoliberal transition to a market economy produced unearned income based on improperty, as banks disbursed loans on the basis of exchange-value rather than use-value, and used token money purely to extract wealth, rather than to create it. Classical political economy makes vital distinctions between earned and unearned income, and between property and improperty (Hobson 1937; Tawney 1921). But neoclassical economics elides such distinctions in abstracting market relations from the political economic context (Hudson 2014; Sayer 2015).

One policy implication arising from the article is to tackle unearned income and its negative social and economic effects. In the absence of strong moral economic principles against interest, private commercial banks have to be made publicly accountable (Sayer 2015). This can occur through either nationalising private banks or controlling their powers through democratically determined legislation. In this way, the creation of credit money and how it is used and charged for can benefit the whole economy, rather than the interests of private elites.

Acknowledgements

Our thanks to the journal editors, the referees, Chris Pickvance and Chris Hann for their suggestions and advice on an earlier version of the manuscript. We would like to express our gratitude to the interviewees for their time, guidance and patience. The usual disclaimers apply.

Funding

The author(s) disclosed receipt of the following financial support for the research, authorship, and/or publication of this article: This project was funded by the University of Kent's Social Sciences Faculty Small Grant Award.

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Notes

1. Microfinance institutions provide basic financial services to low-income clients, who traditionally lack access to banking services. They specialise in small loans, and some also offer deposit accounts. Microfinance companies refer to for-profit microfinance institutions.
2. McLeay et al. (2014) argue that in practice commercial banks face limits on how much they can lend. Lending is constrained because individual banks have to lend profitably in a competitive market, and have to take steps to mitigate the risks associated with making additional loans. Furthermore, central bank uses a range of regulatory measures, including requirements for banks' capital and liquidity positions, and short-term interest rates on central bank reserves, to ensure that banks do not take excessive risks when making new loans that could threaten the stability of the financial system.
3. The code on Islamic finance was excluded for several reasons. During the fieldwork the authors found there were only two small banks that operated according to Islamic banking principles: Kyrgyzstan's Eco Islamic Bank and Kazakhstan's Al Hilal Bank, which offered only corporate banking services. In the study none of the participants offered Sharia-compliant retail products. Some participants were very vague about the potential of Islamic banking to either develop or dismiss it. In 2014 Islamic finance accounted for only 2% of the total banking sector by assets in Kyrgyzstan, and there was no retail presence in Kazakhstan (IFC 2016). More recent data suggest this remains largely unchanged. While some scholars (e.g. Hoggarth 2016) argue for the rise of Islamic finance in Central Asia, the authors found little evidence to suggest that commercial retail banks operated according to Islamic banking in the Kazakhstan and Kyrgyzstan.
4. Predatory lending refers to unethical lending practices that are unfair, deceptive and fraudulent. It can also involve aggressive marketing tactics.

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