INTRODUCTION

Setting the Scene

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This book examines from a multidisciplinary perspective the functioning, outcomes, and often-hidden rationale that lie behind the most important, and certainly the most popular, international development policy of recent years: microfinance.[1] Unusually for a technical financial development technique, a large number of high-profile celebrity campaigns have ensured that the general public has a broad awareness of microfinance and how it works.[2] The microfinance model involves the disbursement of tiny loans (microloans) to the poor in order that they might establish a range of very simple, informal income-generating activities. Although approaches to and ways of delivering microfinance vary, the mainstream development community assumes that microfinance, by developing formal sources of credit, will render the poor less exploitable by informal sources—usurers or loan sharks. Proponents of microfinance further assert that a formal source of credit will virtually always lead to a successful microenterprise, which will improve livelihoods, reduce vulnerability, and, particularly if the borrowers are women, provide a source of income that will be invested in health and community.

The microfinance model's simplicity, apparent effectiveness, and resonance with dominant neoliberal theories of development very much helped sell it to the international development community and key Western governments, most prominently that of the United States. Because the microfinance model put (micro)entrepreneurship and markets center stage in the fight against global poverty at a time, the 1980s, when the neoliberal model was gaining ground, its popularity in the international development community was assured. Peruvian economist Hernando de Soto (1986) was just the most prominent figure predicting that poverty would be abolished (in his native Latin America) thanks both to more microcredit and the slashing of large numbers of regulations and laws. A little later on, as the microfinance model was what we might call "neo-liberalized" and turned into a for-profit business model, leading microfinance advocates Maria Otero and Elizabeth Rhyne (1994) announced that a "new world" of massive poverty reduction was just around the corner. Commercializing microfinance would result in "healthy" microfinance institutions that could pump out massive volumes of microcredit without the need for any outside subsidy or support, meaning that all poverty reduction through microfinance would be a *no-cost* intervention. The formation of sustainable financial institutions would themselves constitute development. The international development community's collective view was usefully summed up by the former head of the International Labour Office's social finance unit, Bernd Balkenhol (2006, 2), who described microfinance as "*the* strategy for poverty reduction *par excellence*" (emphasis in the original).

Accordingly, from the 1980s onward, poverty reduction and local development policies and programs in developing countries were considered incomplete without a major microfinance component abutted by a thorough deregulation and desupervision of the local financial space. In principle—through self-help, individual entrepreneurship, and very easy access to microloans—the global poor could thenceforth be safely left to escape poverty through their own individual efforts. This discourse—usually summarized by the phrase "to pull oneself up by one's bootstraps"—resonates with the coping strategies employed by the entrepreneurial poor in the developing world, which often take the form of informal microscale enterprises and tiny self-employment ventures. In these situations, a lack of access to formal sources of credit is said to curtail income generation. Yet the poor are, by definition, credit risks and hence vulnerable to exploitation by informal lenders, who, unrestricted by market and formal mechanisms, may charge unacceptably high interest rates. Although this type has been largely phased out in recent years, most microfinance interventions initially accepted a group guarantee as "social collateral" against the loan and so avoided the paradox inherent to formal banking systems in which it is "expensive" to be poor. Not only did the group prove to be an effective form of collateral—and microfinance was soon being celebrated for high repayment rates—but the responsibilities of gathering information to establish credit worthiness and collecting repayments were transferred to the group, thus reducing administrative costs for the loan provider.

However, such an individualized, entrepreneurial approach to development ignores the structural underpinnings of poverty, which include processes of colonization, rapid urbanization, and dynamics of gender, class, age, and rurality, which attenuate life chances. It can also function to delegitimize political resistance, blame the poor for their own situation, and dismantle poor people's "collective capabilities" (such as forming trade unions supporting and voting for a pro-poor "developmental state" and mobilizing around single-issue campaigns); indeed, many argue that dismantling such approaches to development are the political aims of neoliberalism (Harvey 2006). Microfinance exemplifies neoliberal approaches to welfare and inclusion in that it situates development and poverty reduction as simply opportunities for entrepreneurialism and extending the market rather than increasing collective and state-coordinated social security provision and decent employment opportunities. However, many have argued that collectively organized and state-led interventions have historically been very effective in eradicating endemic poverty and reducing crushing inequality in the now-developed countries (e.g., Krugman 2007; Green 2008) and that advocates of neoliberal, market-based approaches to development are, in effect, "kicking away the ladder" for developing countries in the Global South to go down the same path (Chang 2002). Although neoliberal economists and politicians would hold that in a globalized world, such interventions serve as barriers to the expansion of global markets, increases in inequality suggest to many that the ladder is indeed being kicked away (Pickety 2014). The polemic positions on microfinance reflect these two sides of the development challenge, but, as we will demonstrate in this volume, much political, economic, and social complexity surrounds the anointing of microfinance as a development panacea, as well as its more recent betrayal of that potential.

In 2010 enthusiasm for microfinance began to wane, even among erstwhile advocates (Harper 2011; Roodman 2012), because the debt incurred by microfinance-supported entrepreneurs was simply not leading to poverty reduction as had been promised and, in a growing number of cases, it was leading to deeper poverty, vulnerability, disempowerment, and even suicide. The stories of these suicides, in particular, grabbed headlines around the world and links were made to the transparency, accountability, and egregious profiteering of the microfinance institutions themselves (Sinclair 2012a). Studies assessing the effectiveness of microfinance as a tool of large-scale poverty reduction also began to cast serious doubt on its empirical basis, and many realized that much of the enthusiasm for microfinance had been ideologically motivated. Indeed, the systematic, UK government–funded review of microfinance undertaken by a notably independent group of impact evaluation specialists and microfinance experts not only concluded that the "*current enthusiasm* [for microfinance] *is built on . . . foundations of sand*" (Duvendack et al. 2012, 75), but that the case for microcredit was actually so weak that they suggested it could only have been made on the basis of the *politics*, not the *economics*. The authors thus enjoined political scientists to attempt to understand "[why] inappropriate optimism towards microfinance became so widespread" (Duvendack et al. 2012, 76). Similarly, a team of largely US-based academics working with a set of six randomized control trials (RCTs) that focused on a number of leading microfinance projects found almost no positive impact arising from microfinance: "The [RCT] studies do not find clear evidence, *or even much in the way of suggestive evidence*, of reductions in poverty or substantial improvements in living standards. Nor is there robust evidence of improvements in social indicators" (Banerjee et al. 2015, 13, emphasis added).

The dramatic rise and fall of microfinance over the last twenty years provokes a number of questions that we will explore: What is the evidence of microfinance having a positive economic and social development impact? What political and cultural assumptions influence how this evidence is constructed, analyzed, and used? What local and national poverty-reduction strategies have been sidelined in the enthusiasm for microfinance? These questions require us to cast a critical eye over discussions of microfinance, taking into account the way the intervention has been sold (including claims about poverty reduction and women's empowerment) and assessing small-scale, qualitative case studies, as well as large-scale claims, about the economic impact of microfinance. After considering these issues from a variety of perspectives, we contend that microfinance was claimed to be a development panacea because it was rooted in a neoliberal ideology that has underpinned the massive growth of inequality over the period of time in question. Our exploration of alternatives, including cooperatives, credit unions, and state-led development strategies, places the politicized nature of microfinance evangelism in sharp relief.