Introduction: Microcredit and Credibility

Microfinance has become a nugget of surreal polemics. One needs to look no further than the figurehead of the movement, Muhammad Yunus, to appreciate just how strange things have gotten. Only a few years after the Nobel Committee praised Yunus and his Grameen Bank for its exemplary conduct, the Prime Minister of his own country accused Yunus of “sucking money from the people” and forced Yunus to retire from Grameen. Clearly we have contradictory perceptions of microfinance. But which one is more credible?

This question is especially important in this particularly tumultuous time for the microfinance industry. On the one hand, its advocates have been celebrating their grandest and most coveted achievement to date: surpassing their goal of lending to over 150 million families worldwide. For many advocates, such rapid proliferation is itself proof that microfinance is good. But at the same time microfinance had “a near death experience” in Andhra Pradesh (Daley-Harris 2010), a region once seen as the frontier for innovative micro-lending. After a spate of suicides by highly indebted farmers, local politicians railed against microcredit and even encouraged their constituents to default on their loans. The unrest caught the attention of the international news media, much of which turned increasingly critical of microfinance.

These opposing perspectives highlight the need for a better comprehension of the efficacy of microcredit in a variety of settings. In other words, is microfinance really helping people?

It is a question academics could help answer. Using more rigorous methods and more precisely defined criteria for impact, researchers are able to collect data that go beyond mere anecdotes, parachute journalism or political rhetoric. And many academics have done just that, spending months, even years in the field, meticulously observing and documenting the impact of microfinance. The only problem is that the academics also don’t agree. This is a testament to the difficulty of properly measuring impact; the methodological complexities of which will be discussed below.

The purpose of this book is to further dialogue on the impact and performance of microcredit. We hope to both facilitate academics, practitioners, planners and activists to better understand the impact of microfinance. And we hope to challenge both advocates and critics of microfinance to consider
these matters with more methodological rigor—and thus to speak with more credibility. In so doing, this book draws upon the knowledge of some of the leading scholars on microcredit, as well as new names that bring fresh insights to these issues.

This chapter starts that endeavor with a brief survey of the academic literature on the impact of microcredit, weighing the preponderance of evidence. But before delving into the academic works, I will discuss briefly what information we can glean from advocates and practitioners. Of course, advocates and practitioners typically do not have the time or resources to do rigorous research, so we should not hold their literature to the same standards as the academic works, but still it is important to scrutinize the implicit values and latent assumptions embedded within the rhetoric of microfinance. Doing so draws attention to the fundamental dilemmas of assessing impact, and helps better appreciate the contributions made by academics.

**Microfinance According to Advocates and Practitioners**

Microfinance Institutions (MFIs) and their advocates worldwide have long heralded the successes of microcredit in myriad anecdotes about women who have worked their way out of poverty and empowered themselves in the process. Having witnessed such cases myself in the field, I do not doubt them. But it is important to note that they are purposively selected for their emotive appeal, and thus not necessarily representative of the experiences of all borrowers. Furthermore, these anecdotes often conflate feminine needs with feminist empowerment and essentialize women by emphasizing their compliant nature and undying responsibility for children. Meanwhile, a story of a husband or father who is chauvinistic or incapable to provide for his family often is constructed as the straw man to explain these women’s impoverished status.

For example, the Microcredit Summit Campaign’s (MCS) website lists “empowering women” on its homepage banner. If one clicks on a link to “microcredit success stories,” one finds a number of vignettes of women borrowers. One vignette features Gonuguntla Mariamma from India, who was married off at the age of ten. With the income from her loan she has revitalized the land her husband owns and bought more rice for her family. Another vignette is about Janet Deval in Haiti, who is using her income to send her children to school, even though her husband has been opposed to the idea. Yet another vignette features Alemnesh Geressu from Ethiopia; it explains that the money she earns from trading in the market is used to buy things for her fam-