Profit Empowerment: The Microfinance Institution’s Mission Drift*

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Abstract
In this paper we try to raise caution against the consequences of the overwhelming drive for microfinance institutions to become financially self-sustainable—more often than not pushed into this by international organizations. Such a push can have severe consequences, ranging from mission drift to questionable practices employed by institutions. Focusing on India, we discuss the extent to which donors influence the microfinance sector and identify the role that international organizations play in pushing microfinance institutions away from their primary objective of delivering financial services to the poor. Revisiting the microfinance crisis which erupted in India in March 2006, this case study reveals a fundamental problem: the zeal of private and public actors, driven by motives that are hard to relate to the fight against poverty, a new commercial niche for the former and a collection of vote banks for the latter. Understanding the origin, the driving forces, and the extent of this problem may not only help us work out an improved governance process, but may also help us evaluate the reach and limits of microfinance.

Keywords
microfinance, mission drift, self-help group, India, Andhra Pradesh, institutional discipline

* This paper is the result of fruitful discussion with Isabelle Guérin, Malcom Harper, Marek Hudon, Marc Labie, David Picherit, Sarah Rankin, Marc Roesch, Jean-Michel Servet and Barbara Harriss-White. We are very grateful to them all and also to the Perspectives on Global Development and Technology referees.
1. Introduction

The term microfinance has been widely employed for the last two decades, both in the discourse of international organizations and by politicians and actors in the field. It is seen as the tool to eradicate poverty and has developed into the donors’ favorite means of doing so.2

The focus of development strategies in the late 1980s and early 1990s can be singled out as one of the major determinants in the growing popularity of microfinance. The then dominating neo-liberal approach3 to empowerment (Fernando 2006:187) concentrated on increasing capital stock and improving the allocation of resources. Bretton Woods institutions and United Nations agencies, in particular, adorned microfinance with many virtues in the fight against poverty. Numerous events such as the Microcredit Summit Campaigns,4 the International Year of Microcredit or the Microfinance India Conference led to the development of “higher common principles” (Boltanski and Thévenot 2006:71) such as the “fight against poverty” or the drive “to reduce the nuisance of private money lending” (Sukhdeve 2005:23).5 This dynamic part of a “global development architecture” (Weber 2002, 2004) drew on the

1 To put microfinance into perspective in the general context of development and globalization, see Servet (2006) and Fernando (2006).
2 Excerpts from the 2004 Action Plan of the G8, which was adopted at Sea Island in June 2004, exemplify this focus: “applying the power of entrepreneurship for the eradication of poverty, […] sustainable microfinance can be a key component in creating sound financial market structures in the world’s poorest countries,” and “with the support of the World Bank-based Consultative Group to Assist the Poor (CGAP), G8 countries will work to launch a global market-based microfinance initiative” (G8 2004).
3 Numerous authors critical of globalization wrongly make no distinction between the liberalism and neo-liberalism approach. The distinction is, however, crucial, since the liberal movement, as defined already in the 18th century, sees public intervention as a necessary framework for private activities, while the objective of neo-liberals is to eradicate the public influence (Schümpeterly Younossian, Fino, and Servet 2007:29).
4 The first Microcredit Summit Campaign was launched in 1997 in Washington “to ensure that 175 million of the world’s poorest families […] are receiving credit for self-employment and other financial and business services by the end of 2015.” Personalities involved in the different chairs of this Campaign come from very diverse backgrounds: international firms (Monsanto), banks and commercial finance institutions (Citigroup), politics (Hillary Clinton), civil society organizations (FINCA International, Women’s World Banking), Foundations (United Nations Foundation, Charles Stewart Mott, George Soros), etc.
5 While in India, for example, before the 12th Century, moneylenders belonged to the Hindu caste system of traders and wholesalers, with a social role. Under the Moghol period rules against them become harsher (Kulshretha 1964); this negative picture continues under the British occupation. According to Sharma and Chamala (2003), “the exploitative image of the moneylender has continued from Adam Smith in the 18th century, through Karl Marx in the 19th century, to Gunnar Myrdal in the 20th century” (2003:1716) a negative picture used by the Grameen Bank of Bangladesh but also by the SEWA Bank in India to legitimize their interventions.