THE JOURNAL OF
PHILOSOPHICAL ECONOMICS

Volume V Issue 2 Spring 2012

ISSN 1843-2298

Review of David Roodman, Due Diligence: An Impertinent Inquiry into Microfinance, *Center for Global Development, 2012, 365 pp.*

Annie Sholar

Sholar, Annie (2012) 'Review of David Roodman, *Due Diligence: An Impertinent Inquiry into Microfinance*', *The Journal of Philosophical Economics*, V:2, 144-147

Review of David Roodman, *Due Diligence: An Impertinent Inquiry into Microfinance*, Center for Global Development, 2012, 365 pp.

Annie Sholar

David Roodman, in his role as a research fellow at the Center for Global Development, noticed that large microfinance institutions (MFIs), such as the celebrated Grameen Bank, advertise themselves almost exclusively using emotionally moving anecdotes about the positive changes microcredit has on individuals' lives. In *Due Diligence*, Roodman points out just how powerful these types of stories can be, both by creating a psychological connection between the reader and the subject and by glossing over the complexities of an economic or political situation. Thus, Roodman argues, MFIs can be forgiven for relying on stories about individual beneficiaries of MFIs when trying to gain international financial support or approval.

However, he is also incredibly wary of the dangers of relying on unrepresentative, non-randomly-selected narratives – that is, anecdotal evidence – to form impressions of a movement that is affecting the daily lives of millions of some of the most marginalized people on the planet. This concern motivated Roodman to write *Due Diligence*, in which he argues that thorough, scientific studies of the realities of microfinance "on the ground" as well as theories of the causal relationships between microfinance and development are necessary if the world is to give its support to this poverty-reduction strategy.

The book is a valuable introduction to the field of research surrounding microfinance. However, in his attempts to highlight the need for a more rigorous evaluation of microfinance as a tool for poverty reduction, Roodman is forced to pay more attention to some aspects of the trend while overly simplifying others. Unfortunately, one aspect that is simplified is the notion of the origin of microfinance as a movement. Roodman portrays microfinance as an exogenous intervention for economic development rather than something that can be led via grassroots organization; he unfortunately must also skip explaining how this exogenous intervention can become an endogenous solution that supports autonomy. To cover both Roodman's main critique of current evaluations of microfinance and the idea of microfinance as an endogenous movement is likely too much for one book, so my intent is not to disparage Roodman but rather suggest an important perspective to consider as this field of research expands.

First, before discussing this point, it is important to understand that Roodman's intent is neither to dismiss microfinance completely as a viable tool for development, nor to disparage some of microfinance's most enthusiastic and visible proponents. Roodman tells a story of meeting with women in Cairo at an MFI center and feeling conflicted about whether or not to try to tell them microfinance might not be the panacea it is often portrayed to be. Ultimately, he decides to stay quiet because "unless I had compelling evidence that microcredit harms, which I did not, who was I to tell them how to live their lives?" (139). Indeed, Roodman ultimately concludes that, because the poor arguably need methods of organizing their finances *more* than the rich and because microfinance has some contemporary and historical evidence suggesting at least some positive impact on development, "financial services for poor people do deserve a place in the world's aid and social investment portfolios" (273).

Implicit in that quote, however, is the first main gap in Roodman's presentation of the issue. Throughout the book, Roodman presents microfinance as an exogenous force on the developing world, and as a force that *should* be completely exogenous to the populations on which it acts. The poor are passive recipients to microfinance, a gift that they "deserve" and can be gifted from above. For example, as an introduction to his comparison of the various types of MFIs that exist today Roodman writes that there's "no doubt [that] most MFI leaders, staff, and investors care deeply about the ultimate impact on borrowers and communities" (112). Note that in this portrayal, MFIs and the communities on which they have an impact are mutually exclusive groups and further, are related to one another in an almost parent-child relationship, with the MFI looking out for the well-being of the community. At times, the impression the author creates is that microfinance is pushed by the "parents" of the development industry onto the "children" in the developing world. For example, Roodman writes that the poor avoid buying insurance policies because, although they protect against certain catastrophes, can't be used to cover every uncertainty in their daily lives. This is a logical, rational economic decision to make from the individual's point of view, but Roodman suggests that "people can be taught" to think differently about insurance (117). In another example, Roodman reports that many of the supposed beneficiaries of group lending schemes "complain of ...coming to hate meetings" (121). In both cases, despite the evidence that these types of microfinance go against what the poor would choose for themselves, it seems like MFIs and their proponents would like to push micro-insurance policies and group meeting schemes onto the poor because it's good for them, in the same way that parents push broccoli onto their children because it's good for them. In this way, microfinance is portrayed as an institution that groups exogenous to the communities being affected can push onto those communities.

Roodman does, however, recognize that exogenous aid is not a viable long-term solution. In fact, in one chapter, he supports the idea that development can partially be conceptualized as autonomy from exogenous assistance, financial or otherwise. He writes that "overall the great strength and hope of microfinance lies in building sufficient institutions that give billions of poor people an increment of control over their lives" (270). Unfortunately, he does not expound on the process by which exogenous aid will be transformed into endogenous, autonomous aid; he does not detail how microfinance will build those "sufficient institutions". Although likely only because of the limited space Roodman has in which to discuss this issue, it is still unfortunate that the overall impression created by the book is that microfinance will continue to be an exogenous "charitable project," as he classifies it, until the poor are, all of a sudden, autonomous (273).

This last weakness is not Roodman's alone. Many development authors, such as William Easterly in his book *White Man's Burden*, critique the imposition of Western assistance on the Global South as counterproductive because it reduces the autonomy of developing nation but neglect to suggest how the necessary evil of Western assistance could change. This suggests a vast window for future research, of which the world of microfinance could be just one small subsection.

Overall, *Due Diligence* is a useful starting point from which to constructively critique global microfinance. More research is necessary to draw causal connections, if any exist, between microfinance and the dynamic process of development. *Due Diligence* is a must-read for all academics and policy-makers interested in microfinance as well as any potential investors in MFIs. As Roodman points out, this group has grown in size incredibly in the past few decades thanks in no small part to the powerful stories MFIs have told.

Annie Sholar is an undergraduate student concentrating in Development Studies at Brown University in Providence, Rhode Island (anne_sholar@brown.edu)