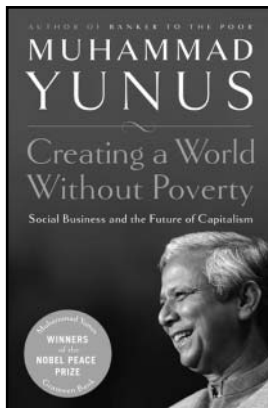


Reviews and resources



Creating a world without poverty: social business and the future of capitalism

Muhammad Yunus
2007, New York: Public Affairs Books, 249pp. including index, £15.99; ISBN: 13 9781586484934

As the founder of the Grameen Bank in Bangladesh, and subsequently as a Nobel-propelled global champion for poverty reduction, Yunus long ago outgrew his early vocation as an academic, and this book is no dry scholarly treatise. Rather, it is most engaging as a lively account of his pioneering work with both microfinance and spin-off businesses – ranging from mobile phones to fortified yogurt. Woven into the first-hand reportage of his life as a global social entrepreneur there is also an earnest attempt to conjure a new vision of socially responsible business out of the murky interface between contemporary capitalism and philanthropy. After a cursory review of the limitations of profit-maximizing business, government, charities and donors Yunus acknowledges that the quest for a competitive and socially more enlightened form of business goes back as far as capitalism itself. To what extent, he asks, can the recent success of global capitalists, particularly

in Asia, be prodded into spawning alternative business models of larger and more lasting significance than the likes of New Lanark in Victorian Britain?

Yunus distinguishes between non-profit businesses controlled by altruistic investors aiming to maximize social benefits, and businesses owned by poor people themselves that are successful enough to be able to pay them a dividend. Like cooperatives, the latter are prone to being hijacked by richer people, though the book speculates on whether new forms of governance spawned by a mix of developmental professionalism and modern technology can delay or even prevent this. With respect to the first and more paternalistic business model, a key question is how to stimulate a sufficient supply of competent business philanthropists. Can Yunus – in short – clone himself? The book is in part a direct and laudable pitch to do so by appealing to the better nature of those business professionals (especially in the USA) who are rich, brave and creative enough to indulge in running non-profit business to benefit poor customers. Slightly less idealistically, it also addresses the bosses of multinationals, who are open to the idea that they can thereby bolster their corporate image, not

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least among their own staff. In this sense the quiet hero of this book is not Yunus himself but Emmanuel Fabel, the employee delegated by the head of food giant Danone to start up a joint venture with Grameen to supply cheap nutritious yoghurt to poor Bangladeshi children. If so, then it is rather a shame he turns out to be a European expatriate rather than a home-grown role model for the burgeoning Asian business class.

A linked and more searching question is less concerned with individual motivation than with the governance and incentive structures of businesses whose survival are not underwritten by the insecurity and greed of their shareholders. Unfortunately this is an issue that Yunus – accountable mostly to his own conscience and determined to seek out the best in people – is particularly unable to explore objectively. At the heart of the problem is the rather dry and technical question of the feasibility of social as well as financial performance measurement and management. Can high-tech decision systems be refined so that mission-protecting ‘principals’ can cost-effectively monitor the actions of potentially more opportunistic professional ‘agents’ and thereby spawn a global quasi-market for investments in social business? Yunus provides many tantalizing and practical pointers, but ultimately the book fails to tackle these issues in sufficient depth or detail:

vivid narrative being no substitute for systematic scrutiny of financial accounts and careful interpretation of social indicators. Only when innovative social business models (let alone imaginative mechanisms for financing them) can be explained and analysed more precisely and coldly will they be copied, and thereby have a chance of becoming more than peripheral curiosities of the global economic system. Yunus and Grameen have gone a long way towards passing this test in the field of microfinance; but they still have some way to go before doing the same with their model of social business. Nevertheless, it would be churlish not to wish them well in their attempt to do so.

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Indian Microfinance: The Challenges of Rapid Growth

Prabhu Ghate
2007, Sage Publications India
Private Limited
ISBN 978-0-7619-3643-5 (PB),
226 pp

Microfinance has acquired a high international profile in recent years. However, a few years ago, in the confines of a relatively smaller group of discussants and observers, the international discussion and analysis rarely noticed Indian microfinance. An Indian team which presented a half-day India session on the

third day of an international gathering at a Frankfurt seminar in 1999 noted that India was mentioned just once (according to the conference report by Vijay Mahajan) in the first two days, and put in the category of 'wall flower', where no change had taken place (from the old regime of financial repression). However that was in the last century.

Both the country as well as the microfinance sector in India, are trying to make up for lost time. Prabhu Ghate has tried to analyse and present this rapid growth in Indian Microfinance. Initially presented as a state of the sector report for the Microfinance India 2006 conference, this analysis has been published as a book to meet the growing national and international interest in what is happening in microfinance in India.

The author estimates that microfinance in India reached 35 million households by March 2006, out of which 17 million households were poor. He calculates that even allowing for a degree of overlap, the total number of poor households being reached was roughly a fifth of all poor households (page 17). By March 2006, the outstanding portfolio was estimated at \$2.4 billion (page 62) and 2005-06 annual growth between 49 to 63 per cent (page 83). Considering the size of the challenge and the situation 5 to 10 years ago, this is significant. Although \$2.4 billion portfolio outstanding is

a small part of the trillion dollar economy, this is beginning to be noticed for current impacts as well as future potential.

The book is divided into nine chapters to present the analysis in a coherent structure and deal with various challenges being faced by different stakeholders. Chapter 1 presents the overview and summary of main recommendations from various chapters. The next two chapters focus on the progress made under the two dominant models – the home-grown Self Help Group linkage with formal banks and the Microfinance Institutions model. Chapter 4 attempts to draw lessons from the 2006 conflict between the microfinance institutions and Andhra Pradesh state government. Chapter 5 covers diversification of financial products and specifically deals with micro insurance and domestic money transfers. Chapter 6 focuses on training and capacity building as the author assesses that human resource development has perhaps now become the biggest constraint. Chapter 7 focuses on commercial financing and covers lending by the commercial banks as well as the equity investments by venture capital funds. Chapter 8 covers development financing and reviews the role of apex financing institutions as well as donors. The last chapter looks at research on Indian microfinance.

Considering the sheer diversity and size of the country;

diversity of methodologies and organizational forms; big egos and strongly held views generated in a thriving democracy; lack of comparable data and microfinance as a nascent sector; the production of this state of sector report is a challenging task. The author has consulted widely, usefully summarized many key studies for the readers and provided almost 300 end notes and numerous references to justify a conclusion or to clarify assumptions. A long list of contributors acknowledged on pages 15 and 16 indicate the numerous sources of contribution and support.

For me personally, Chapter 4 about the conflict between the Andhra Pradesh state government and microfinance institutions is the most valuable and effectively describes the rich but often challenging context of the political economy of Indian microfinance. This is an area which is often swept under the carpet. This analysis confirms that in a more enabling environment, the growth rates could have been even higher but a weaker challenge and less accountability would have produced less than perfect solutions in the long run.

As a senior and respected independent researcher and an ex civil servant, the author has not hesitated to offer some sharp and insightful comments. Examples include:

- To address regulatory anomalies, the RBI (the central

bank) should 'conjure up the necessary political will' to lift the interest rate ceiling on small loans (page 33)

- It must jar politicians to see microfinance growing rapidly in the state at much higher cost-covering interest rates, when the Andhra Pradesh government had made cheap credit for the poor an important plank in their election campaign (pages 92-93)
- 'The state government intervened to protect the model it was promoting, or in other words, let its promotional role dominate the role of neutral umpire between models' (page 102)
- 'The (microfinance) sector should be prepared to challenge the legality of the actions, such as that taken by the AP government in Krishna district in March 2006, in the courts if necessary' (page 27)
- How much pressure and of what kind is acceptable by microfinance institutions to recover loans, what are reasonable interest rates and how to assess over-lending in the absence of income and credit information in the informal sector (pages 94-98)

The author concludes that the 'good' news far outweighs the 'bad' and the Indian microfi-

nance sector is growing rapidly and helping to move towards financial inclusion. But the regulatory regime is still preventing the formidable formal financial sector from playing anything other than an indirect and secondary role. Although mentioned, the treatment of this subject is very weak compared to its pivotal importance.

Similarly, the need for better and comparable statistics is highlighted. But a clear distinction has not been made between the demand side and the supply side data. While there is need for better supply side statistics (provided by banks, microfinance and apex institutions), there is even greater need for robust demand side national data to better inform debates and policy making. While studies and surveys are conducted,

there is no overarching national market research which profiles consumers and their financial services use across areas/regions and how the market shares of various providers are changing over time.

Overall this is an excellent synthesis of the state of the microfinance sector in India and will be valuable to those who are already well informed as well as those who have become newly interested. Practitioners, policy makers, funders and others based in India or outside will find this book useful and interesting. While the numbers will change rapidly, the core issues and analysis will be valuable for a much longer period.

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