out noting that two major studies – by a World Bank economist, Shahidur Khandker, and EDA Rural Systems – found that its positive impact on the poorest is greater than its impact on the moderately poor. Karnani also states that “most microenterprises are small and many fail” without providing supporting data. While it’s true that many borrowers shift their working capital from one business to another, often on a seasonal basis, the case for widespread failure of these businesses is contradicted by a growing body of empirical research, not to mention the high repayment rates realized by microfinance institutions.

Finally, Karnani implies that Muhammad Yunus has claimed that microfinance alone will rid Bangladesh of poverty. Yunus has said nothing of the sort. In his vision of a poverty-free Bangladesh (and world), microfinance has an important role to play, but he has stated that it is not the only factor. He has demonstrated this by establishing 23 other companies that focus on areas of poverty in Bangladesh that microfinance alone cannot address on the scale and speed desired.

Microfinance certainly has many areas in which it needs to grow. This article unfortunately sheds little light on them.

ALEX COUNTS
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What’s “the mark”? Could it be that Karnani has fallen victim to the hype of microfinance’s cheerleaders? This may explain his wide-ranging terms for defining the “mark” – “alleviating poverty,” “lifting people out of poverty,” “curing poverty,” and even “eradicating” poverty. Even though anecdotal evidence from microfinance shows that it can make big gains, the studies indicate that the norm is more modest alleviation.

Would a 50 percent increase in income “lift people out of poverty”? Probably not. Would it “cure” or “eradicate” poverty? Not likely. Would it significantly improve the lives of those people? Yes.

A 50 percent increase in income would likely mean that people eat better, enjoy better health, improve their housing, and have greater confidence and hope for the future. It might even mean permanent graduation out of poverty. If this is the “mark” – rather than overnight eradication of poverty – then we feel that microfinance is indeed hitting it.

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Karnani’s advice to reallocate resources away from microfinance and into large enterprises is a straw man based on flawed analysis. Karnani does not review the history of promoting large-scale industry over the last three decades, nor current investment in it. Further, he assumes that India, Indonesia, Bangladesh, and other countries in Asia, as well as Africa, have not been trying to capture the attention of private sector entrepreneurs and investors in large-scale industries. He does not even once mention foreign direct investment, which is fueling China’s growth today and is instrumental in other countries he cites. Moreover, he ignores the available empirical evidence on the impact of microfinance. Thanks to microfinance, over 113 million poor families have better prospects than they did before. The founding members of Ashoka’s Global Academy – Muhammad Yunus of Grameen Bank, Fazle Abed of BRAC, and Ela Bhatt of the Self Employment Women’s Association – have proven the value of microfinance not only to the families who use it to escape absolute poverty, but also to countries that create an environment in which it can thrive. They have also developed higher value-added, larger-scale opportunities for the poor using social business entrepreneurship, social enterprise, and joint ventures.

Karnani rightly disparages the inequities in India. He should have made the same argument for China. Trickle down does not work fast enough for all those who urgently need a way out of dire poverty. Prioritizing microfinance and helping the poor to help themselves is simply facing the harsh realities of today’s global economy. The poor cannot wait for the silver bullet of a big factory to turn up in everyone’s village when the silver buck-shot of microfinance is more readily available.

Karnani admits that a country can pursue both strategies – microfinance and large-scale industries – yet he cannot offer any real evidence why countries should choose one option over the other. Ultimately, his sweeping and dismissive argument against microfinance harms the very poor whom he calls on governments to protect. Why can’t he hear and respect Taslima Begum, the first village woman ever to address a Nobel Peace Prize ceremony as a board member and owner of Grameen Bank? She pulled herself out of poverty with several loans to start different businesses. She chose to stay in the rural areas rather than pursue one of the 10 million garment industry jobs created over the last 15 years in urban Bangladesh. She was not offered any alternative livelihood by government or business.

Karnani ignores the fact that we have completely biased the global economy over the last few decades in favor of large-scale industries. Workers around the world were not supposed to be treated as a commodity. But they have become just that in this globalizing economy. Karnani forcefully argues for “stable
jobs,” but from where does he think they will come? I am sure people in Michigan will be most curious to know his answer.

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Karnani recognizes that the extraordinarily rapid expansion of microcredit for the world’s poor is not a be-all and end-all solution to underdevelopment. He’s right that larger projects, technological adaptation, and innovation are also necessary to diversify opportunities and raise income. But in knocking microfinance, Karnani has set up a straw man. Most professionals in microfinance would agree with him that microcredit should be accompanied by other advances — from education to physical infrastructure.

Reading the article’s dichotomy of microfinance-or-jobs perplexed me. Microcredit is one prong of a multipronged approach to generate income, livelihoods, and entrepreneurship. Besides, many microfinance institutions seek to reach marginalized populations (rural, unskilled, or women) who don’t have access to jobs. Absent such a multipronged approach, many people are invariably left out. In addition to boosting productivity, microfinance assists poor households with their overall immediate consumption and survival.

The article is helpful in calling attention to the problems of microfinance. Today, the major bottleneck to higher-quality programs is the shortage of strong institutions and managerial skills — something academia needs to address. The article also correctly points out that we have so far failed to measure the impact of microfinance — a common gap during the early years of a movement. This swelling sector needs better metrics, greater coherence in data collection across countries, and methods for discerning the long-term effects of microfinance.

A new and growing network of business schools and research institutes across the developing world has convened through the Microfinance Management Institute, a joint venture of CGAP.