

Migration, Microfinance and Poverty: theory and practice

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914-661-6998 This calendar provides lecture topics, discussion questions and most

readings, the [course syllabus](#) has course requirements (including project description).

If any links in the calendar do not work, please send us an email.

Migration & Microfinance Policy & Research: America's Broken & Obsolete

[Immigration Policy](#) (Fareed Zacharia, Time Magazine) Imai, et al. (2012)

Microfinance and Poverty- A Macro Perspective, World Development, 40:8,1675-89. NY Times [Moneylenders and](#)

[Starvation in India](#), Niala Kabeer, Is [Microfinance a Magic Bullet](#) for Women's Empowerment? Economic and

Political Weekly October 29, 2005. [Mohamed Yunus on the just interest rate for MFIs](#) (NY Times October 15, 2010)

Tuesday June 19th Guest Speaker: Andrew Springer and Raul Hinojosa (Concourse Fund and UCLA-NAID): here are his slides, [Mangrove, microfinance and migration](#). He is off to save the Greece of the western hemisphere (El Salvador), wish him luck... please send Andrew your comments on his talk and slides, he speaks this Thursday.

These last discussion questions do not have to be turned in. Instead we will discuss them in class. If you feel you cannot answer these questions with confidence by the end of next week, please let us know and we will review the answers on Tuesday June 21st. **For Tuesday June 19th** please choose your project topic and if possible skim [Chapter 1](#) of the Handbook of Microfinance (HBMF) to review what we know about microfinance and poverty and [Chapter 2 of the GEP 2006](#) on how international immigration affects poverty and development (who wins and who will lose if international migration continues at the current rate until 2030?)

4.1 Use the [lecture notes](#) on Microfinance Chapter 1 of the Microfinance Handbook ([Karlan and Goldberg \(2011\)](#)) and perhaps take a brief look at [CGAP's About Microfinance page](#), especially does [Microfinance help the poor?](#) [Deaton \(2009\)](#) and/or the [DFID survey paper](#) to (a) discuss why we should or should not give up on microfinance as a poverty reducing tool just yet? This is especially true for women, or is it? (though group lending may not be the best, and not all husbands are jerks). (b) Offer solutions to the three crises of microfinance—some have already happened, see [Chapter 5](#) and [Chapter 6](#) “Rethinking Microfinance” from Collins et al., 2011, *Portfolios of the Poor*. If high interest rates are unavoidable and the poor desperately need credit, what does this say about the benefits of saving? (c) Describe a “safe” delivery system for microfinance, for example by combining micro saving with other transfers, Conditional Cash Transfers for example, one that protects the poorest borrowers, but still provides access to credit (perhaps via “safe saving.”) Once poorest borrowers are protected (with some credit) become more experienced and affluent borrowers can use Accion or Compartamos style microfinance (larger loans at market rates). Use the loan size charts below to discuss how this may already be happening (compare loan size in South Asia vs. Latin America). Hence we have room for both Latin and South Asian style microfinance if we can protect the poor from borrowing too much? True or false? There is no hard econometric evidence microfinance reduced poverty for women in Bangladesh (hint: Roodman & Morduch [may be wrong](#)....)

4.2 Women who migrate face particular risks, from village to city and especially migrating internationally. Yet women's migration may also have large benefits for the woman and her children. (a) Explain using *Factory Girls (chapter 1 and 11)* or other readings, discuss the risks and rewards of migration for women and development—use of remittances for education for example. (b) The [ILO better factories](#) program and the [world bank NARI](#) seek to protect women from worst risks of migration while still allowing them to benefit from factory jobs, how? [this question will complete this question next week, drawing on the questions on migration and development lectures by Professor Fuentes below]. (c) Who gains and who loses from international immigration? Immigration clearly reduces poverty, but at what costs? How can these costs be minimized so the full potential of immigration as a development strategy be realized? Is immigration a substitute or a complement for other forms of globalization (think of China and Mexico).?

4.3 Remittances reduce poverty in the long and short run (how?) but create fluctuations in poor family's income and can have unpleasant side effects. Microfinance can help the poor, particularly women but so far we are only certain it reduces vulnerability (credit generally smooth consumption but may also hurt some very poor families, how?). Explain how microfinance can enhance the poverty reducing potential of remittances. Explain how remittances can increase the poverty reducing potential of microfinance (hint: safesave). Mobile banking also has the potential to make remittances and financial inclusion work better. Why is this potential being realized in Africa and Asia (already, Kenya, India, the

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Philippines and Bangladesh) but not in Latin America? Is it too late for Latin America, or is the region simply behind much poorer Africa and Asia?

June 12th Lecture Schedule/Topics: 6:00-6:30pm: discussion questions assigned Thursday (feel free to update typed answers in class, ask questions, etc.) 6:45-7:45pm: Professor McLeod's Lecture in Microfinance [Key Issues](#) and [Impacts](#) and [Immigration in the 1990s](#) and [GEP 2006 Slides](#) **7:45pm-8:00pm: break for Nopales** 8:05-8:40pm Professor Fuentes 8:45-9:00pm: questions, open discussion regarding Project and Lectures.

Please answer one of these discussion set 2 questions for Tuesday June 12th (see [lecture notes](#) and readings here and on [syllabus](#)—if you cannot find a reference or reading contact us at the emails above, we can fix it).

2.1 Drawing international migration and remittance theory, discuss some of the global and individual factors that push people to immigrate sometimes in spite positive shifts in the local economy and employment opportunities sometimes despite increased legal immigration obstacles. See [Hondagneu-Sotelo, 2003](#) on the role of the new service economy and significance of women and gender studies and/or [Taylor et. al \(1999\)](#); [Stark and Lucas, 1988](#), Massey et. al. [Chapter 12](#) of Cuecuecha and Pederzini, 2012 (on the New Economics of Labor Migration) See also [Saskia Sassen](#) on the parallel transfer of foreign capital and labor in a new system of globalization.

2.2 **Gender and remittance:** Migration and remittances generally alter household structures and gender roles. How? Why does it matter whether a male or female family member migrates or remits? How does the increasing immigration of women and 'feminized remittance flows' contribute to new status roles for women? Refer to readings by [Petrozziello, A. J. \(2011\)](#), on 'feminized flows of remittance in Honduras and the impact of remittance on women left behind (see also Briere, Benedicte, Elisabeth Sadoulet Alain de Janvry and Sylvie Lambert (2002) "The roles of destination, gender, and household composition in explaining remittances: an analysis for the Dominican Sierra" [Journal of Development Economics](#) 68,309-28, on how the shifts in the local and international economy affect women's migration and change Dominican household structure.

2.3 **Remittance and Poverty:** Finally, discuss how remittances can be used as a way to help poor families qualify for credit, savings or loans in the community of origin? What does Alfredo [Cuecuecha's research](#) and [Richard Adam's](#) research and colleagues predict in the case of Mexico? Put differently, based on current research on the impact of remittance in rural Mexico, what might make remittance transfers a more effective intervention [strategy](#) to reduce poverty? (Use Cuecuecha and Pederzini, 2012, [chapter 10](#) and [chapter 12](#) to provide some evidence on these points; as well as [Fuentes and McLeod \(2011\) NACCs Presentation](#) or Arjan de Haan (DfID) and Shahin Yaqub (UNICEF) 12 May 2008, "[Migration And Poverty: Linkages, Knowledge Gaps And Policy Implications](#)" UNRISD/IOM/IFS workshop "Social Policy and Migration in Developing Countries" Stockholm, for possible solutions and strategies towards poverty reduction and development.

Microfinance discussion questions for Tuesday June 5th: answer one of these three questions for June 5th typed 1-2 two page (2 copies, 2 sides if possible) bring two copies (please) to class with next Tuesday. Sections in Italics are optional, and or will be addressed in future lectures. General readings: Armendáriz, Beatriz and Jonathan Morduch (2010) *The Economics of Microfinance*, 2nd Ed [cover material](#) [Chapter 1](#) and [chapter 2](#) (interest rates) and just the very beginning of [Chapter 3](#) on informal finance. Chapter 1 is particularly important as it summarizes the book, as we discussed in class. [Chapter 1](#) is also part of the cover material, but we forgot to emphasize it last week, sorry.

Tuesday June 5th Lecture: required readings: [Petrozziello, A. J. \(2011\)](#) "Feminized Financial Flows: how gender affects remittances in Honduran-US transnational families [Gender and Development Special Issue](#) on Migration. Vol. 19, Issue 1, March 2011.

Thursday June 7th: Alfredo Cuecuecha, President of El Colegio de Tlaxcala in Mexico will join us via Skype from the state of Tlaxcala near Puebla. His [lecture notes are here](#). We may have to choose between seeing Alfredo on the screen, so if you have a portable device, please bring it with his presentation saved. Professor Cuecuecha got his PhD at Boston University and has coauthored many influential papers on the impact of remittances on poverty and education with [Richard Adams](#) at the World Bank. He also recently coedited with Carla Pederzini a volume [Migration and Remittances from Mexico](#): trends, impacts and new challenges published by Lexington Press in 2012. In class recommend chapter 12 by [Massey, Durand and Pren on Migradollars](#) in Latin America and [Chapter 10 by](#) Pia Orrenius et al. on Remittances and Economic Development in Mexico. Both Chapter 10 and 12 contain useful literature reviews, you can glance at the econometrics, then perhaps read the conclusions.

Saturday June 9th: Alicia forgot to mention that the [Lower East Side people's Federal Credit Union](#) got a thousand new members from the "[Move your money](#)" project and Occupy Wall Street (OWS). Originally, OWS had its \$300k bank account

at LESFCU, but it moved it to Amalgamated Bank in Queens. Saturday 4-6pm the LES-FCU will have its annual party at its office 37 Avenue B, at 3rd Street in Manhattan, a famous immigrant neighborhood (see Ric Burns PBS documentary).

Thursday May 31st lecture synopsis: Following Roy (2019) most microfinance operations, formal and informal, fall into three possibly overlapping categories: group lending, typically to groups of very poor women (e.g., Grameen I solidarity groups); self-financed individual lending (Compartamos, SKS) and subsidized lending as part of larger social protection scheme run by government or an NGOs (Grameen II, BRAC, ASA and [NIDAN](#) & [video](#)). Clearly, these categories may overlap, NGOs may administer group or individual lending programs. [KIVA for example](#), facilitates individual and group lending with subsidy component (our donations) but also supports local MFIs who do charge interest and possibly make profits. The three [“crises of microfinance”](#) we will review in this course include the [high interest rate controversy](#) triggered by the Compartamos IPO, the [mass defaults and suicides](#) in [Andrah Pradesh India during](#) 2010 (mainly [SKS](#) borrowers it seems) and most recently [a series of randomized trial studies \(RTS\)](#) published 2008-2011 showing microfinance [has limited impacts on poverty](#) (it seems). The following questions focus largely on first interest rate crisis controversy addressed in the Now video. The readings draw on Chapter 1 and 3 of Roy, worth reading, but to answer these questions you can use page numbers provided, search for key words or look for highlighted sections (depending on the time you have for reading). **Reading unassigned:** during class I suggested [KIVA’s “about microfinance”](#) section, but since it quotes a 2005 vintage [UNCDF memo](#), and which in turn is now widely cited on the web. However, I now have some reservations about this reading, so let's later (do read Ananya [Roy's take on the KIVA/Whole Planet/RED](#) phenomenon, however). Short **reading added:** Ricardo Hausmann (2010) [Finance & Development, June, V47, #2](#) “To Profit or Not to Profit: Is That the Question? Muhammad Yunus Building Social Business The New Kind of Capitalism That Serves Humanity’s Most Pressing Needs” Public Affairs, New York, 2010.

1.1 (Econ/Soci) Briefly outline the three models and microfinance controversies discussed in class (see lecture notes) with reference to the [2007 PBS Now Documentary](#) in Roy [Chapter 1](#) and [Chapter 3](#) (page 25 or page 116). a) How did what Roy calls the public and private transcript of the Bangladesh model contribute to the present confusion over how microfinance works? In a sense Compartamos and SKS represent the [Washington Consensus](#), while Grameen, NIDAN, BRAC and ASA reflect the [Bangladesh Consensus or Grameen model](#), [explain](#). b) Are the lower interest rates of the Bangladesh consensus an illusion? Briefly outline a case for high or low interest rates drawing on the film, [Hausmann's \(2010\) review](#) of Yunus, your own views and/or, for IPED/Econ students, [Chapter 2 of A&M 2010, 2nd ed.](#) [Economics of Microfinance](#) (see also [questions 1 and 2 at the end of Chapter 2, for discussion, not written answers—hint: adverse selection, time consistency, moral hazard and limited liability](#)). c) [What does CGAP stand for?](#) Hint: Grameen I. Who funds CGAP? What are microsharks ([Roy Chapter 1](#))? (answer: Consultive Group to assist the poor-- not poorest-- perhaps this key difference between CGAP vs. Grameen I).

1.2 (Urbanization) Bangladesh is the most densely populated country in the world, some project Dhaka will be a city 50 million people by 2050. Bangladesh is very vulnerable to climate change. [Bangladesh's success](#) is one of the best arguments for Microfinance (the BGD model) and migration (remittances) are certainly part of the answer to this question. In first 10 minutes of this talk, [Mohammed Yunus identifies 4-5 key elements of the Bangladesh Miracle](#) list them briefly. Contrast them with [Hans Rosling's list](#), where do they differ, where do they overlap? What role has migration and microfinance played in the Bangladesh Miracle (Ananya Roy, 2010 comments on this, but you need probably need to look at the 10 minute videos too).

1.3 (Ethics) In Chapter 7 of *Due Diligence*, David Roodman argues microcredit type 1 (group lending) is the least likely of all MFI models increase empower or enhance freedom. Which model scores lowest in promoting development as freedom. How might these problems explain the 2nd crisis 2010 Andrah Pradesh, what should we look for if Model 1 was the problem? Is David Roodman a reactionary as described by [A. O Hirshman in his Tanner Lectures](#)? When reading the Roodman book and web posts, watch for reactionary futility, perversity and jeopardy arguments, he walks the line, but does he cross the line?

Discussion Questions and final project ideas: 2-3 pages presentation topic memo (TOR) with standard references (not just urls) due Thursday June 21st you can also send a short idea email to get our feedback/suggestions sooner. If none of these topics interest you, send us some ideas and we will try to help you develop a topic (via email).

4.4 Migration and development: How can remittance and microfinance be combined to alleviate poverty? Alfredo [Cuecuecha outlines](#) the problems poor remittance receivers face in Mexico? Would microcredit or micro savings be best suited to their needs? For which segment or strata of the poor and non-poor population do these two financial models work or not? Compartamos (Mexico) and Grameen/BRAC/ASA are very different microfinance models, which model is most suited to Mexico (say Puebla and Guerrero). Are these two models complements or substitutes? Explain with respect to key target groups. As shown in Table 3, Peru and El Salvador have much larger average loans than Mexico and Guatemala: why might this be the case? See also [this CGAP paper](#) on Mexico's poor.

4.5 Explain how [M-Pesa works in Kenya](#), what are the hopes and limitation of this branchless banking model for other regions? Who [runs M-Pesa](#)? Who is key for handling money in rural areas? Do M-Pesa users save using M-Pesa? Is M-

Pesa a remittance or a microfinance technology? How could it potentially be both? Why is there so little mobile banking in Latin America (as opposed to Asia or Africa)? Hint: for some types of new innovation, lack of development is an advantage (i.e., No Carlos Slim dominating the telecom market and blocking innovation and keeping prices high as in Mexico). What does this argument suggests about the dynamic of development and adoption of new technologies? What can NGOs and multilaterals contribute to removing these obstacles to development? Could this be the source of NYC OFE [supervitamin effect?](#)

4.6 The ethics of Microfinance: Roodman begins *Due Diligence* 2011 with Murshida and Razia's stories, one gains from micro loans, the other loses (See also the [Hassans of Bangladesh](#) and [Siama in Pakistan](#) or Sheela in Bihar, india. Suppose both are equally poor to begin with. Should Murshida be denied [credit](#) to avoid harming Razia? What would Ananya Roy or Mohammad Yunus say regarding this problem. See the "The Ethics of Microcredit" in Beatriz Armendáriz & Marc Labie [Handbook of Microfinance](#). Use women's empowerment or high interest rates to further your discussion of the ethics of micro finance. Do remittances raise ethical issues? How do men and women retain control of the funds they remit to their sending country (or village?).

4.7 Labor market integration in new global urban spaces: discuss the work sectors and occupations where women and especially immigrants integrate within urban spaces. How are these sectors linked to new global "[feminized survival](#)" circuits or networks? See also Sassen [Excesses of Globalization](#) and Autor on [Polarization in the U.S. labor market](#). How does this polarization affect the prospects of immigrants coming to the U.S. (particularly women). See also Fuentes, 2012 (linked to syllabus) on Dominican and Mexican labor market immigration in New York. What obstacles and opportunities do Dominican women face that Mexican women do not?

3.5 Pick an MFI or Immigration NGO in New York or abroad, Summarize what they do and discuss how issues of credit, microfinance and/or remittances play (or could play) an import role in their operations and goals. Drawing on the material studied in this course, suggest some new strategies for developing remittance corridors, safe financial inclusion and facilitating remittances and family stability. For example, discuss the buffer or mediation role of NGOs in protecting vulnerable communities from credit markets and hazards of immigration (family separation). Possible NGOs in [NEDAP Alianza Dominicana Me Casa Es Puebla](#) (double undocumented) Bethex, Grameen New York, Accion, and many others.

*3.6 Suppose you were an intern assigned to update Kiva's "[about Microfinance](#)" page with the latest research (include direct links to key references) with authors dates etc. Try to address the concerns of David Roodman (*Due Diligence*) and [Stephanie Strom](#) regarding transparency. Where do problems remain in establishing a fully transparent relationship between borrower and lender? Given the three (perhaps four) type of micro-finance which does Kiva seem to support? Roodman says aid agencies and people should not directly finance micro loans, do you agree with him? See also [Ananya Roy's discussion](#) of Whole Foods Whole Planet program—very similar to KIVA. She did once, but does Roy still have reservations re online direct lending? Does she do it? Would you? What is Kiva doing right, what could it do better? Draw on class readings to do quick desk evaluate Kiva's strategy?*

3.7 Do some research on [Mexico Direct](#) (aka Directo Mexico)? What does it do? When did it start? What has prevented it from expanding more rapidly? Is the whole idea flawed or does it need a new approach? Use [Alfredo Cuecuecha's](#) presentation to develop some ideas and identify some problems with remittances, credit access and poverty. And don't forget [MENA and Nopales and AMUCCS](#) in Oaxaca. Financial regulation are changing in Mexico to allow mobile banking in Mexico, how might this improve financial access for the poorest in rural areas (or will it?).

3.8 Pick a country (Mexico, Bangladesh, Kenya, El Salvador?) that has some \$1/day rural poverty and where migration and remittances can make a difference. What has the government and/or NGOs done to encourage remittances and/or microfinance and to protect poor families from the risks and side effects of migration and access to credit? Are they doing a good job? Present some evidence to this effect. What can be improved going forward? What classic negative and positive effects of remittances and microfinance are evident in this country, or among its Diaspora? If your country is Bangladesh update the Rosling and Yunus accounts of the BGD miracle with your research on the role of remittances and/or microfinance. See the mix market data below or online to more information about your country.

If you click on a country, you will get more Mix Market detail on its MFIs

Table 2: Mix Market Data Reports 10.4 million loans averaging \$1150 in Latin American in 2011 (total of \$12 billion)

Country	# MFIs	Active Borrowers*	Total Loans* *thousands	Average Loan
Argentina	2	1.1	1,892	1,714
Bolivia	7	351	839,830	2,392

<u>Brazil</u>	4	1,838	1,655,205	900
<u>Chile</u>	2	230	1,624,709	7,058
<u>Colombia</u>	16	2,214	4,979,697	2,250
<u>Costa Rica</u>	1	3.5	4,074	1,178
<u>Dominican Republic</u>	4	278	286,431	1,031
<u>Ecuador</u>	6	243	415,866	1,712
<u>El Salvador</u>	5	91	320,273	3,532
<u>Guatemala</u>	6	254	144,285	568
<u>Haiti</u>	2	22	36,921	1,706
<u>Honduras</u>	9	114	158,955	1,389
<u>Mexico</u>	41	6,020	1,864,996	310
<u>Nicaragua</u>	10	227	224,389	987
<u>Paraguay</u>	5	498	985,149	1,977
<u>Peru</u>	50	3,607	8,734,089	2,421
<u>Uruguay</u>	1	2	7,324	3,466
<u>Venezuela</u>	1	45	120,928	2,699
totals/average	108	10,400	11,936,876	1,148

Source: MIX Market Regional click on the country name to get more information
[Profile http://www.mixmarket.org/mfi/region/South%20Asia#ixzz1xjrnZDVe](http://www.mixmarket.org/mfi/region/South%20Asia#ixzz1xjrnZDVe)

Table 3: Mix Market Data Reports about \$.5 billion in loans in Africa to about a million borrowers in 2011

Country	# MFIs	Active Borrowers*	Total Loans* (thousands)	Average Loan
Benin	4	19	5,498	284
Cameroon	4	72	180,781	2,494
Congo (DRC)	5	25	48,187	1,961
Ethiopia	1	33	3,454	106
Ghana	2	141	38,067	269
Kenya	1	0.5	412	818
Liberia	1	26	3,686	143
Madagascar	5	98	61,158	626
Mozambique	1	5.1	1,963	387
Nigeria	3	424	77,134	182
Rwanda	4	23	16,120	715
Sierra Leone	2	12	1,566	134
Tanzania	2	122	73,553	603
Togo	1	1.7	1,970	1,183
Uganda	1	1.4	128	88
total/average	37	1,003	513,676	512

Country Info: <http://www.mixmarket.org/mfi/region/Africa#ixzz1xkGHqh5F>

Click this table to update or get more country specific Mix market data.

Table 1: South Asia: 10 million loans averaging about \$145 in South Asia in 2011 for a total of \$1.4 billion in loans.

Country	# MFIs	Active Borrowers*	Total Loans*	Average Loan
			(thousands)	
Afghanistan	1	11	3,359	298
Bangladesh	3	5,840	730,333	125
India	15	3,542	592,066	167
Nepal	9	350	79,121	226
Pakistan	2	245	38,342	157
Sri Lanka	1	39	6,270	159
Total	31	10,027	1,449,492	145
Average				

Source: MIX Market Regional Profile <http://www.mixmarket.org/mfi/region/South%20Asia#ixzz1xjrnZDVe>

Click on a country name to get more Mix Market MFI data for that country

**Table 4: Mix Market Data Reports about \$.5 billion in loans East Asia to
about 4.8 million borrowers in 2011**

Country	# MFIs	Active Borrowers*	Total Loans* (thousands)	Average Loan
Cambodia	17	1,386	1,623,169	1,171
China, People's Republic of	34	64	2,042,128	31,878
Indonesia	3	277	32,571	118
Laos	19	17	42,715	2,472
Papua New Guinea	1	3	9,847	3,784
Philippines	15	1,596	307,906	193
Tonga	1	4	1,595	389
Vietnam	29	457	544,136	1,191
total/average	157	4,808	5,117,872	1,064

FINANCE & DEVELOPMENT, June 2010, Volume 47, Number 2 Book Reviews

PDF version To Profit or Not to Profit: Is That the Question?

Muhammad Yunus, Building Social Business The New Kind of Capitalism That Serves Humanity's Most Pressing Needs Public Affairs, New York, 2010, 226 pp., \$25.95 (cloth).

The poor are disconnected: from gainful employment, access to clean water, electricity, roads, transportation, calories and micronutrients, health care, education, banking, telecommunications, the Internet, justice, security. Their willingness to work remains the largest wasted resource on earth.

Connecting the poor to opportunity can be self-sustaining. More productive work will enable them to buy solutions to the challenges they face and bring them financial self-sufficiency. Moreover, these solutions involve jobs the poor can do themselves. Prosperity is thus an autocatalytic process: work creates wealth that can then be appropriated by those who work.

Building Social Business is full of examples of business ideas to overcome poverty by enhancing the value of the poor's willingness to work and by designing effective and self-sustaining solutions to their most pressing problems. (The author is the founder of Grameen Bank—one of the first microfinance organizations. Since the late 1970s it has been making small loans to entrepreneurs in some of the poorest areas of his native Bangladesh. Its lending activities now extend worldwide.) In this, his most recent publication, Yunus shows how child malnutrition can be addressed by hiding crucial micronutrients in a pleasantly flavored yogurt (Grameen Danone); how affordable shoes for the rural poor (Grameen Adidas) combat worm infections; how health services can be offered for a prepaid fee or cataract surgery for those who are losing their eyesight (Grameen Health Care).

This book is not just inspirational. It aims to create and brand a new social movement based on an entrepreneurial and self-sustaining way of addressing the problems of the poor, clearly distinguished from charity or from corporate social responsibility, neither of which is self-sustaining. But he also wants to distinguish it from garden variety capitalism—hence the book's subtitle. The point is not just to build businesses that address the problems of the poor, but to create “social businesses,” where “everything is for the benefit of others. It is built on the selfless part of human nature.”

Yunus carefully distinguishes his new brand of capitalism, and his enemy is the profit motive, which he says sooner or later gets in the way of serving the poor. He believes it should be banished. Just as a smoker who wants to quit must avoid even one puff or a Muslim during Ramadan must forgo the smallest snack, businesses must turn their back on profit. “Making a complete break from the for-profit attitude creates a huge and important difference for the businessperson who really wants to commit himself or herself to social change.”

Yunus claims to have invented a new form of social organization in the realm of not-for-profit businesses geared toward solving the problems of the poor. He is careful to distinguish it from for-profit capitalism, cooperatives, socialism, government, charity, communism, or corporate social responsibility. He claims intellectual property rights on microcredit, although Accion International preceded his Grameen Bank by more than a decade. With an intelligent mix of donations and profit motive Accion created organizations such as Compartamos, MiBanco, and BancoSol, which have grown much more dynamically than Grameen Bank, precisely because, unlike Yunus, they did not insist on group lending or oppose profits.

The not-for-profit brand does buy goodwill. Grameen has partnered with major corporations such as Danone (for the yogurt) and Adidas (for the shoes), whose association with Grameen has been good for their own brand. However, as things stand, these companies are limited to quaint programs managed by their corporate social responsibility departments. New billion-dollar markets would be transformational for the poor. Avoiding the profit motive restricts these solutions from truly scaling up, and passing up donations limits subsidization of activities that cannot be organized in a sustainable way.

Readers are likely to find inspiration, but should take the social movement Yunus is trying to brand with a pinch—or a pound—of salt.

Ricardo Hausmann

Director of the Center for International Development and Professor of the Practice of Economic Development at Harvard University

