

Book review

Henry Rempel

Fighting Poverty through Enterprise: The Case for Social Venture Capital, by Brian Griffiths and Kim Tan. London: Transformational Business Network, 2007. Available online at <http://www.tbnetwork.org/resources/books-articles/fighting-poverty-through-enterprise-book/>.

Brian Griffiths and Kim Tan are intent on reducing poverty so pervasive in Africa and South Asia. *Fighting Poverty through Enterprise* argues that the means to this end is to redirect foreign assistance to small and medium enterprises by investing in social venture capital. This redirecting of assistance includes replacing charity with investment.

Key to this proposed strategy is good government: sound macroeconomic policies, transparency, and an effective legal system. With these elements in place in the recipient country, it is also essential to (1) encourage corporations and the wealthy to redirect their charitable donations to investing in a social venture capital fund; (2) encourage donor governments to increase the portion of their foreign assistance dedicated to funding enterprise, including promotion of more business-friendly policies in recipient countries; and (3) encourage high-income countries to reduce trade barriers that now affect adversely exports from low-income countries.

To make the case for this strategic change in how foreign assistance is delivered, the authors contend that current forms of aid should end. Their critique of foreign aid is a summary of various studies that set out to prove that aid has failed to reduce poverty. But typically the goals of such aid include advancing military objectives, creating markets for donor country exports, “buying” access to resources located in recipient countries, and “purchasing” votes to be used in international forums. When aid is

evaluated in terms of whether it has met these goals, it often proves to have been quite successful.

To their credit, the authors recognise the serious effects of subsidies within high-income countries as a barrier to free as well as fair trade. They also note the benefits of debt cancellation in alleviating poverty. The authors are concerned that multilateral and bilateral aid must go to governments. Many of these are deemed to be corrupt, with the result that aid is misused. The authors conveniently overlook the fact that a bribe must be paid in order for it to be received. Why is only the recipient and not the payer seen as a culprit? Should the good governance necessary for a sound social venture capital strategy be realized, aid generally would become more effective as well.

The authors view microcredit and microenterprise development in a favourable light. These initiatives reach out to families caught in poverty and provide a source of income that reduces somewhat the poverty within their households. The authors note correctly that jobs created beyond that household tend to be limited, and only a low proportion of such microenterprises ever mature into growing formal enterprises.

There are some exceptions. When the nongovernmental organizations involved make training an integral part of access to credit, the likelihood of microenterprise project success increases. Also important are training in how to build a market and basic bookkeeping to facilitate financial planning. In addition, product improvement and better inventory control reduce significantly the likelihood of enterprise failure. These factors in turn reduce accumulation of bad debts for the project. For Griffiths and Tan, interest rates up to 50 percent are acceptable. An efficient delivery mechanism for training and credit, combined with a low incidence of bad debts, should enable a sustainable microcredit initiative at interest rates between 15 percent and 20 percent.

At the end of chapter 2 the authors introduce International Finance Facility for Immunisation as an example of good aid. Success, they contend, is linked to the aid going to a registered charity (rather than to the government) and to transparency. This project to immunize children against diseases such as measles, tetanus, and yellow fever is basically a replication of an initiative decades ago to limit the spread of rinderpest among livestock in

East Africa. An expatriate veterinarian was given syringes and vaccine and was provided with transport service. He moved from village to village inoculating cattle. Such an intervention typically involves one brief action, and local participation is facilitated through negotiations with a chief or another village leader. In my judgment, these—more than private rather than government delivery and greater transparency—are the key factors for program success.

Poverty alleviation, in contrast, requires longer-term interventions, and buy-in by the people involved is necessary for program success and sustainability. The key is to move beyond working with clients or involving stakeholders to building partnerships with program participants.

The social venture capital funds Griffiths and Tan envision work with customers rather than with the “victims” the authors associate with charity initiatives. In their case studies, local businesses and subcontractors are still referred to as clients and stakeholders. Is it an advance to think in terms of customers rather than partners?

In summary, it has been demonstrated that economic growth is a necessary but not sufficient condition for poverty reduction. Also, small and medium enterprises have a proven track record as a means to economic growth. Extending such employment and economic growth to reduce poverty generally requires complementary activities such as good governance, schooling, potable water, primary health care, and family planning.

Fighting Poverty through Enterprise makes a compelling case for social venture capital as a good building block to promote development. The book’s efforts to demonstrate that aid diverted from poverty alleviation programs to social venture capital will reduce poverty more effectively are not as convincing.

About the author

Henry Rempel is professor emeritus in the Department of Economics, the University of Manitoba. In addition to teaching economic development, he has led more than twenty missions abroad to evaluate projects for various agencies. He is author of *A High Price for Abundant Living: The Story of Capitalism* (Herald Press, 2003).