

***A Billion Bootstraps:
Microcredit, Barefoot Banking and the Business
Solution for Ending Poverty***

by Phil Smith & Eric Thurman (McGraw Hill, 224 pages, hardcover, \$30.94).

Book review by John F. Kyle, PhD

How excited would you be if you unexpectedly received \$50? What if it turned out that the \$50 were a loan, not a gift or lottery winnings, and you had to pay it back within six months? If you are like the majority of people in Canada, under some circumstances a loan of \$50 might be well appreciated, but it would not really change your life. If you are one of the people described in this book, however — that is, one of the majority of the world's population who live in the Third World — a loan of as little as \$50 can be all you need to turn your subsistence business into one where your annual income doubles, triples, or even more. Two \$20s and a \$10 could let you break out of the grip of poverty and move into your country's equivalent of the middle class.

A Billion Bootstraps is a book about what has become known as microcredit, a concept more or less invented in the 1970s by three institutions looking for ways to help the desperately poor in underdeveloped countries that would prove to be more effective than well-intentioned, but not always very successful, large scale government-to-government foreign aid programs, or even the programs of larger, long established charities. ACCION International (operating in Latin America, the Caribbean, and Africa), Opportunity International (Latin America and Asia) and Grameen Bank (started in Bangladesh, but now the largest and best known microcredit bank, all accepted the accuracy of a well-known (among economists, at least) quote from the late Milton Friedman, the 1976 Nobel Prize in Economic Science winner, who

asserted, "The poor stay poor not because they are lazy, but because they have no access to capital."

What these institutions and others that have followed them discovered was that lending small amounts to poor people to assist them in starting or expanding a business was often the most effective way to provide that initial access to capital. They also discovered that by focusing on small loans, the limited financial resources they had available could be spread out over more people, thereby giving large numbers of people not a short-term handout, but rather a sustainable route out of poverty.

As an interesting aside, the authors note that in 1515 Pope Leo X issued a ruling in favour of what were called *montes pietatis* or "mounts of piety" — organizations that made small loans to help poor people with only nominal collateral compared to the standard of the day. In today's terminology, these sound a lot like microcredit institutions, so perhaps the movement is a rediscovery of an older concept.

Of course, as the saying goes, and the book documents, "there is no such thing as a free lunch." These programs only work where there are dedicated people willing to run them and where there are others willing to contribute funds to become the seed capital for the microcredit institution to get started in a particular location. As Smith and Thurman describe, a microcredit program requires bankers to go out and find the people who could benefit from a microcredit loan, overcome the natural suspicion of people who have no reason to believe any banker would want to help them and then organize a lending program for a small group of people who will meet regularly with the banker who is running the program. In microcredit, to run the program usually entails not only approving a loan, but also helping the borrowers with advice on sound business methods and other matters to improve their health and standard of living.

This book is well worth the read. It is not an economic treatise on microcredit, but rather a practical description of the concept, along with examples of both successes and failures. The authors make it clear they want to generate interest in the barefoot banking movement, with the hope that some readers will become donors to microcredit institutions. But since both are very successful businessmen, they do not just provide an emotional appeal. Instead they have provided a brief economic explanation of why these programs work, including a good description of the sound business principles behind successful microcredit programs.

They also believe donors should want the institutions accepting their charitable contributions to operate as effectively and as efficiently as possible. In that regard they provide useful guidelines and rules of thumb to be used in evaluating an institution or program that would be a potential beneficiary of your charitable contributions.

To be sure, not very many things in this life are perfect, and I certainly found some things in this book to criticize. For one, microcredit alone cannot solve all the problems of the Third World, and despite the clear suspicion of the larger, better-known charities and their programs that comes through in this book, these more traditional institutions still have a role to play. Also, while the assumptions the authors make to calculate the benefits that will develop from a microcredit loan are not outrageous, I suspect they somewhat overstate the benefits, in terms of the numbers of lives improved. Overall, however, these and a few other issues I could raise are small points. Microcredit does work, and at the bottom line this is a good book.

If you want to learn more about Third World poverty, and how microcredit can help alleviate that poverty, read this book. If you are inspired by the stories told here, and would like to help, read the appendices that provide some references to institutions you might want to consider if you are interested in becoming a participant in the microcredit movement, and to web sites that can

provide or lead you to further information. If neither of these points appeals to you, but it's a rainy day at the cottage, or you have to take a long airplane ride, read this book. You will probably find it better than most novels available these days, and based on experience, you will find it better than the movie on the plane.

(Economist Kyle is vice-president and treasurer of Imperial Oil in Calgary.)

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