
Aneel Karnani, *Fighting Poverty Together*, New York, Palgrave Macmillan, 2011, pp. 304, US\$ 35.

DOI: 10.1177/0973005212462172

Through the book entitled *Fighting Poverty Together*, Aneel Karnani provides us with one of the most powerful arguments ever written about the failure of the poverty fighting models adopted both at the macro and micro levels. He presents a poignant argument that poverty is a moral imperative and considers it to be a violation of the absolute standards of social justice. He claims that reducing poverty is not only important for reasons such as that it is a political threat, or there are economic opportunities in it, or it may help towards ending terrorism or act as a means to achieve greater global prosperity but foremost because it is an insult to people's innate dignity (Pope John Paul II) and is the worst form of violence (Mahatma Gandhi).

Karnani's main areas of criticism relate to what he calls the silver bullets of poverty alleviation: microcredit, corporate social responsibility (CSR) and the Bottom of the Pyramid (BOP) approach. These interventions, he says, do not effectively reduce poverty; moreover in some cases, they can even augment it. Karnani claims that these approaches are based on the idea that private business, governments and civil society work separately and regard one another in a negative stereotyped manner: businesses are considered to be venal and exploitative; governments are considered to be corrupt and inefficient; and civil society is considered to be naive and ineffective. However, Karnani considers that the interventions of these actors are important if a comprehensive and integrated approach is followed. In his opinion, businesses are efficient, motivated and have the substantial resources necessary to make a large-scale impact and civil society has the passion and the energy to fuel this impact. Karnani suggests that so far efforts have

International Journal of Rural Management, 8, 1&2 (2012): 143–149

been ineffective because they were made by these three actors in isolation, rather than in an aggregated, eclectic and pragmatic way and on a case-by-case basis.

In his characteristic approach, Karnani states that poverty reduction mainly has two dimensions that should be addressed simultaneously: income and access to services. Hence, job creation is the best approach to bring about change and in order to reach this objective both private businesses and governments have crucial roles to play. However, one must also ensure that the poor have adequate access to public services (public health, education, security, sanitation and other infrastructure). Additionally, Karnani also considers it imperative for firms to market beneficial goods to the poor at affordable prices, as well as the need for governments to implement regulations to protect vulnerable consumers.

Regarding microcredit, Karnani's position is that it has been overestimated. He explains how microcredit was created to help people with no access to the regular credit system to access loans for the development of small business ideas. However, in more than 50 per cent of the cases, microcredit loans have been diverted for private consumption. In addition, most users are not necessarily entrepreneurs and therefore they do not possess the necessary skills to transform a commercial venture into a successful business. Furthermore, microcredit interest rates are surprisingly high, ranging normally from between 30 per cent to 60 per cent but, in some cases, reaching 100 per cent. Successful cases are generally limited to beneficiaries with entrepreneurial qualities, who do not need the money to repay old debts or for immediate consumption. Such cases are likely to be the examples employed in some books to provide anecdotal evidence and present a biased perspective of the importance of microcredit.

With regard to the BOP approach, Karnani is also sceptical as he argues that targeting the BOP market provides unrealistic expectations and false hopes to businesses, as the market is too small. For the poor it is also unrealistic because they are unable to pay for the products. Furthermore, it is not by providing products to the poor that they will stop being poor. The best way to alleviate poverty is to raise income. So, the poor should be targeted as producers and not as consumers. C.K. Prahalad states that this global consumer market is worth US\$5 trillion. However, the problem lies in whether this amount is distributed by people with some purchasing power or if it remains fragmented as it is.

The first problem lies in how the BOP market is measured; the accuracy of this measurement; and how an income of, for example, US\$8/household/day can be used to buy products of necessity (for example, food) or luxury items (for example, a mobile phone). The second problem surrounds the definition or misinterpretation of the income level at which a person is considered poor in some countries. According to the 'Next 4 Billion' report, 98.6 per cent of India's population is poor, whereas according to the World Bank, only 75.6 per cent are classified as such. Therefore, there is obviously some difficulty as to where the poverty line is drawn. The *Wall Street Journal* considers selling to the poor and to people in emerging countries as much the same principle. This is false, inasmuch as in emerging countries there is a growing middle class that is in fact an attractive target

market. This means that it would be better to know the BOP size not in terms of US\$, but in terms of Purchasing Power Parity (PPP). Third, the costs of targeting BOP markets can be extraordinarily high. In fact, despite the vast number of poor people they are normally widely dispersed and culturally very heterogeneous, which makes distribution and marketing costs unbearable in some cases. Some thriving firms withstand these costs by pricing their products at higher levels, which the poor cannot pay. Two explanations may be given when BOP consumers are effectively served: either there is no significant profit generated by the responsible organization, or the organization is a non-profit one.

Another important issue here is the size and quantity in which products are sold. The poor may get the impression that prices are lower when products are sold in small packets. However, if larger portions were sold, they would not be able to afford such products and the only way to really increase affordability is by reducing the price per unit. However, it is only possible to lower production and distribution costs per unit when products are sold in larger quantities and it is unrealistic to expect a unit dose to cost less than larger packets. On the other hand, there is the environmental cost caused by packaging, often exacerbated in poor villages and slums. Finally, there is the argument that exploiting opportunities at the BOP level is socially responsible and will reduce poverty, which can drive some firms to the BOP playing field: they may be looking for opportunities to promote their CSR obligations rather than actually firmly believing that there are indeed unexploited opportunities to make money.

The only way to help the poor is by raising their real income, which will only be effective if they have access to lower prices or higher incomes. Alternatively, significant improvements in technology could lead to dramatic cost reduction but in most instances this is not feasible. In most of the anecdotal evidence provided, such as the Aravind Eye Care example, cost reduction was promoted due to the large scale attained which was able to transform their business models into real solutions, not to mention that the firm also received subsidies from different organizations. Although such cases are an example of an innovative organization, which is clearly more efficient than a typical hospital, there is insufficient evidence available to contradict the theory that BOP proponents exaggerate the pros of the approach.

When 'de-romanticizing' the market-based solutions, Karnani states that reducing poverty requires resources and that only the business sector and the government working together can achieve the scale needed to make a significant difference. While business is driven by profit, governments are driven by political consensus; therefore a public debate is necessary to achieve this consensus. He reminds us that it was agreed at the United Nations General Assembly in 1970 that 0.7 per cent of a country's Gross National Income would be donated to poor countries, but on average only 0.3 per cent is effectively donated. Countries may be reluctant to make higher donations because they do not believe governments will develop programs that successfully reduce poverty. While left wing parties understand that the poor are poor because there are poverty traps caused by institutional

failures, the right wing tend to believe that the poor are poor because it is their fault as they have not been diligent enough. In the meanwhile, millions of children under 5 are underweight, do not attend school as they are working hard to help to support their families, do not receive routine immunization and many are dying from simple issues such as diarrhoea.

Karnani concludes his book by stating that it is not a matter of blaming someone, but rather a matter of looking beyond ideological battles and adopting an 'evidence-based problem-solving approach' in which businesses, governments and civil society work together and do not shy away from their individual responsibilities. Each one should indeed work to keep the other actors in check, but, above all, they should channel this plethora of moral obligation towards the creation of both private and public groundbreaking action.

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