Investments with Greater Returns: An Examination of Microfinance as an Investment Approach to Alleviating Poverty

An Honors Thesis (HONRS 499)

by

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INVESTMENTS WITH GREATER RETURNS

Abstract

While wealth and power evoke great responsibility, effectively helping the poor is a daunting and multifaceted task. Good intentions do not often outperform the negative consequences that result from disrupting economies and creating dependent communities. This paper analyzes how traditional methods of charity and philanthropy fail to alleviate poverty in the Majority World. Alternatively, methods of investing in the poor are discussed. Specifically analyzed is the use of microfinance loans as a method of investing in the poor. Stressed is the importance of accurately assessing types of poverty and responding with appropriate types of intervention, as well as the importance of sustainable and market driven solutions. Additionally, other sustainable practices are considered, as microfinance cannot wholly alleviate the complexity of poverty. Research and personal experience attest to the importance of investment approaches to alleviating poverty to create long-term growth of developing communities of the Majority World. This paper concludes that helping people help themselves is the best practice in alleviating poverty.
I would like to thank God for the opportunity of attending Ball State University, opening my eyes to the poverty of this world, and blessing me with the responsibility to act upon this knowledge. “To whom much is given, much will be required” –Luke 12:48

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## Contents

I. INTRODUCTION .................................................................................................................. 5  
II. WELL INTENDED MISTAKES OF POVERTY ALLEVIATION ........................................ 5  
III. ASSESSING APPROPRIATE TYPE OF INTERVENTION .............................................. 27  
IV. DEVELOPMENT INTERVION: MICROFINANCE AS A SOLUTION ............................. 30  
V. MICROFINANCE MODELS ............................................................................................. 35  
VI. IMPORTANCE OF SUSTAINABILITY .............................................................................. 40  
VII. SHORTCOMINGS OF MICROFINANCE ........................................................................ 44  
VIII. OTHER INVESTMENT STYLE SOLUTIONS .................................................................. 50  
IX. PERSONAL EXPERIENCE ............................................................................................... 53  
X. SUMMARY & CONCLUSIONS .......................................................................................... 59
I. INTRODUCTION

The divide between the upper and lower class is rising in both North America, as well as the Majority World. North Americans are among the richest people to walk the earth. Bombarded by statistics, Americans may even be aware of the startling difference of their income and livelihood compared to the Majority World. While lending a hand to the poor and social activism are on the rise in popularity and deed, it is gravely important to approach poverty in an educated fashion. "Have you ever done anything to hurt poor people? Most people would probably answer no to this question, but the reality is that you may have done considerable harm to poor people in the very process of trying to help them," according to Dr John Perkins, an American minister and community developer (Corbett & Fikkert, 2012, p. 12). The complexity of poverty requires just as complex solutions. Jacqueline Novogratz (2010), renowned developer of the majority world and founder of Acumen Fund, states, "I saw some of the worst that good intentions, traditional charity, and aid can produce: failed programs that left people in the same or worse conditions" (p. xi)

II. WELL INTENDED MISTAKES OF POVERTY ALLEVIATION: HOW CHARITIES & FOREIGN AID CAN CREATE WORSE CONDITIONS

A lack of money in the pocket is not the ultimate problem in poverty. This is merely a symptom of the problem. "The West wants easy answers for modern atrocities that revolve around ancient tribal hatreds, international aid gone astray, or political corruption. The real world does not oblige" states Novogratz (2010, p. 197). Hence, throwing cash or material goods at poor person is only treating the
symptoms of the problem and cannot be expected to heal the broken system. Incorrectly diagnosing the root problems of poverty not only prevents improvement of the situation but can even cause considerable damage (Corbett & Fikkert, 2012). Beyond a lack of material resources and capital, poverty can be caused by a lack of education, oppression by the powerful, government instability, and a lack of entrepreneurial opportunity. When a lack of material resources is not the underlying problem but is treated as such, a handout can do more harm than good. It would have been better to not respond at all than to give a handout (Corbett & Fikkert, 2012).

A. Philanthropy Lacks Feedback

As businesses and individuals succeed and generate wealth, responsibility is shifted to give back to the community. Philanthropy, however, without careful decision making, is often a wrecking force to poor communities with its own agenda and lack of feedback. In free markets, the producer must provide something of value to the customer at a price the customer is willing to pay (Bowyer, 2013). Supply and demand drives the market so that the goods and services produced are the products that customers want and are willing to pay for. Philanthropy, however, lacks this feedback. In philanthropy, people that are paying out the money are not the people receiving the goods and services (Bowyer, 2013). With a disconnect between those paying for the services and those receiving the services, the receiving end does not always get what is in their best interest as they would in a common business setting (Bowyer, 2013).
A business that partakes in philanthropy also has an agenda with its own paying customers. Philanthropy creates a positive appeal to a company's own customers. Essentially businesses trade their dollars for good stories to share with their customers and boost their own image (Bowyer, 2013). Even more detrimental, Peter Greer (2013), the CEO of HOPE International states, "The story that makes the giver feel best is the story that attracts the most money, even if it's not the story that actually does the most good for the recipient" (p. NA). Another problem with philanthropy is that donors with lots of money often hold lots of power. Big donors often come with strings attached. They want to decide the projects, generate big stories, all in a short amount of time (Novogratz, 2010). True development takes longer than most donors have the patience for. Novogratz (2010) states, "I learned quickly that giving away money effectively can be much more difficult than making it" (p. 139).

B. Surplus Influx Kills Business

The United State and many European countries heavily subsidize their own farmers and then dump the surplus crops into poor countries (Novogratz, 2010). Giving excess to the poor and providing free food to hungry people appears to be the responsible and compassionate response of a wealthy nation. Good intentions, however, can wreck an economy all the same. Injecting foreign goods into a country forces the locals out of business. Free or subsidized crops entice the community to buy the cheaper foreign goods, even if the fields are full of a higher quality crop, putting the local farmers out of business, (Novogratz, 2010). Even if the imported
INVESTMENTS WITH GREATER RETURNS

excess goods are sold at a higher price than the local crop, the locals will buy the imported goods because the American and European goods are viewed as a luxury (Novogratz, 2010). Higher prices can even signal a more desirable good, even if the quality is actually lower (Novogratz, 2010). The effort to alleviate hunger can consequently decrease the local economy due to the excitement of luxury and increase in status.

C. Handouts Hurt Local Economy

i. Locals cannot compete with free goods

Handouts hurt the local economy. According to the book *When Helping Hurts*, “Legitimate local businesses can be undermined when outsiders bring in such things as free clothes or building supplies, undercutting the price that these local businesses need to survive” (Corbett & Fikkert, 2012, p. 115). Businesses cannot compete with “free”. An organization may provide a good, such as shoes, to the people of a poor community. The local people receive the shoes, but the locals who sell shoes for a living, along with all of their employees, cannot compete with free or subsidized goods, and are then put out of business (Bowyer, 2013). Creating an even greater problem, most charity organizations eventually decide to focus their efforts and funding on other geographic areas or projects, so the free shoes will eventually stop. Then when the outside donor discontinues to handout the free shoes, the local people are not only left without the supply of free shoes, but they no longer even have the opportunity to buy the shoes from a local business owner.
INVESTMENTS WITH GREATER RETURNS

(Bowyer, 2013). Conclusively, without the outside donor or the local provider, the community is left in a worse condition than before the charity group stepped in.

ii. Disincentives to make improvements

Building a community for people often decreases the incentive to make the effort or improvement that they could have done on their own. A study in Haiti was found that programs that built a house for a poor family every year were actually diminishing the incentive for the people to make any progress (Bowyer, 2013). The family in the community that was selected each year to receive the home was always the poorest family in the community (Bowyer, 2013). Therefore, a very poor family had more incentive to become the poorest family in the community and receive a free home, than make any effort to increase their economic wellbeing (Bowyer, 2013).

People are poor and remain poor when the incentives they live with create poverty (Bowyer, 2013). According to Dr. Perkins, the government is also at fault for making this mistake. For many years, “Well-intentioned welfare programs penalized work” (Corbett & Fikkert, 2012, p. 12). Because of the penalty for making any progress, the government policy was inadvertently hurting the very people it was trying to help. Novogratz (2010) was hired to provide constructive criticism to UNICEF’s relief programs in Tanzania and reported that she was “Wholly dismayed by the lackluster performance of the government-administered program financed by UNICEF” (p. 147). She details that the government should never be a primary lender of money to the poor, but instead should provide the incentives and infrastructure that allows entrepreneurship and self-sustaining businesses to thrive.
INVESTMENTS WITH GREATER RETURNS

(Novogratz, 2010). The incentives to work hard and grow are key factors to a thriving community that is diminished by a handout.

iii. Creates dependency

The most detrimental effect of a handout might be that it not only diminishes incentive but inherently creates dependency. Bob Lupton, a professional community developer and entrepreneur, explains the progression that a handout creates. He states that the first time a handout is received, there is gratitude, the second time there is anticipation, the third time there is expectation, the fourth time there is entitlement, and the fifth time there is dependency (Bowyer, 2013). Good intentions quickly cripple the potential of capable people. Greer states, “Something changes the more we just give handout after handout. Something that is designed to be a help actually causes harm” (Bowyer, 2013, p. NA).

iv. Exceptions

There are exceptions where handouts do a lot of good for community, but a deeper analysis shows that handout model still falls short of serving the masses. A common handout effort is to provide mosquito nets to people in Africa for malaria prevention. The community is often initially grateful for the thousands of free nets provided but are later frustrated that there is not enough for everyone and no place to purchase them (Novogratz, 2010). In this case, a handout did immediately accomplish good, decreasing the rate of contracting malaria. However, the nets eventually need replaced and the lack of a market producing and selling these nets still meant that not everyone would receive one (Novogratz, 2010.) Even people
willing to pay for them have no way of buying them. A system of handouts alone does not adequately serve an entire society.

D. Understanding Culture

An understanding of the culture before stepping in to “fix” an impoverished community is absolutely vital. Often Americans, who hold wealth and power, believe they know best. This economically wealthy state often leads to an inferior view of lower-income people, referred to as a “god-complex” (Corbett & Fikkert, 2012). This god-complex leads people to believe that they have achieved everything they own on their own efforts, regardless of fortunate circumstances, and therefore have the right or knowledge to decide what is best for those of lower income.

i. Naïve enthusiasm

When Jacqueline Novogratz became the American ambassador for West Africa, she confessed to excitedly jumping into her job but quickly realizing she offered little more than naïve enthusiasm (Novogratz, 2010). Short-term mission trips are the typical extent of any exposure westerners have with poverty in the Majority World. Playing with children, building a house, and smiles from every local is the common experience that furthers the Westerner to believe that they understand poverty and are good at alleviating it. However, there may be an underlying motivation to the local’s enthusiasm and hospitality that may send incorrect signals of what alleviation is effective.
When an economically wealthy aid worker enters a poor community, initial adoration from the locals may disillusion the effectiveness of the work. For example, business-training classes have often been held in developing communities (Corbett & Fikkert, 2012). Attendance is high initially, but a number of the participants stopped coming when they were convinced that the organization was not going to give them money (Corbett & Fikkert, 2012). Their initial enthusiasm was a mask for what they truly were after. When Helping Hurts reads, “All of us do strange things in the presence of money and power. And in poor communities, the outsiders usually represent both, whether they realize it or not” (Corbett & Fikkert, 2012, p. 128).

Even business solutions to poverty, when tested by outsiders, can give skewed results. In many developing countries, Americans are viewed as superior, so any business endeavor will prove to be successful (Novogratz, 2010). The advantage of skin color or nationality provides an unfair assessment of how the local efforts will be received when replicating the same business (Novogratz, 2010). The locals told Novogratz (2010) “No one will say no to a tall American girl selling them things on the streets of Nyamirambo [Uganda]” (p.82).

ii. Pushing Western business culture on others

a. Differing views on value of time

Many organizations have taken heart in the belief that teaching business skills to underdeveloped countries is the ultimate solution to solving poverty. However, business skills are not completely transferrable from culture to culture. Pressing North American business norms on other cultures has a history of false
success. According to *When Helping Hurts*, “Even a person who is gifted at operating a business in North America will not necessarily be successful at doing so in a Majority World country” (Corbett & Fikkert, 2012, p. 216). The Western value of efficiency often undercuts the long, difficult process of creating lasting self-sufficient development. Understanding the differing views on the value of time between different cultures is crucial in effectively offering aid to foreign communities.

Countries can be described as either monochromatic or polychromatic. The monochromatic culture views time as a limited and valuable resource, while the polychromatic cultural views time as relatively unlimited (Corbett & Fikkert, 2012). Disregarding this difference in views can cause great conflict and frustration when working with people of opposite viewpoints. People of the United States are extremely monochromatic on the time value scale, while people of Asia and Africa are more polychromatic (Corbett & Fikkert, 2012). People of a polychromatic cultures often do not produce as many goods and services as a monochromatic cultures but instead place higher value on community and relationships (Corbett & Fikkert, 2012).

Differing values can cause frustration to monochromatic aid worker who values efficiency and keeping schedules when working with a polychromatic who places higher value on taking a break for a couple of hours to talk to a friend he ran into on the street. When a monochromatic works with a polychromatic without understanding the differing cultural views, it is not long before the monochromatic starts looking down at the ‘inefficient’ polychromatic as incapable or lazy (Corbett & Fikkert, 2012). It is then very tempting for the monochromatic to take over and
make decisions for the polychromatic, without understanding the culture, and inevitably making costly mistakes.

By taking leadership instead of helping the local effort build lasting infrastructure, the Westerner communicates that the rich, educated, white person will bring salvation to the people of a foreign culture, of which they do not even understand. After World War II, most poverty alleviation approaches have been through a “blueprint” approach (Corbett & Fikkert, 2012). A blueprint approach is where the economically wealthy make all the decisions about a project and carry them out for the poor (Corbett & Fikkert, 2012). The problem with this approach is that the solutions the Wealthy have come up with are not relevant to the local culture in the poor community. This style often seems very efficient because Westerners get work done quickly, but projects initiated without cultural relevance are a wasteful investment. Furthermore, without the poor of the community taking ownership, the project has very little chance of success, even if it were a solution that fit into the local culture. Any effort to induce change will be thwarted if the people do not really want to change (Novogratz, 2010).

b. Differing views on competition

Another culture differentiator is the expected role of an individual within a community. Some cultures are more individualistic, while others are strongly community oriented. It is ignorant to teach business skills without understanding the ramifications of the different cultural views.

An individualistic culture, such as the United States, values uniqueness and recognition. In such cultures, it is an honor and motivator to be named the
'Employee of the Month' or 'Most Valuable Player' (Corbett & Fikkert, 2012). Trying to implement these incentive techniques or expecting a similar competitive nature from a collectivist community can be frustrating and futile.

A collectivist culture values minimizing the individual identity of a person and focusing on the wellbeing of the community (Corbett & Fikkert, 2012). Collectivist cultures, in Asian and many African countries, value loyalty to the group and self-sacrifice more than individual success (Corbett & Fikkert, 2012). To be recognized as the highest seller, or most productive worker would be a cultural embarrassment, deviating from the identity of the group. Therefore, when a Westerner tries to implement a selling competition, the poor often refuse to participate (Novogratz, 2010).

Importance does not lie in whether or not one culture is right or wrong, but rather in realizing that there is a difference and approaching the problem with an appropriate solution. People of a collectivist community do not share the competitive business style that Westerners are accustomed to. Often, sellers will not compete with each other to provide the lowest price to customers because they do not want to take away sales from their neighbors and friends (Novogratz, 2010). Collectivist culture needs to be met with business solutions

Forcing an individualistic approach can also undermine local knowledge of best business practices in the community. Asserting individualistic values, a mission team or aid worker may treat every individual in the community in the same way. Assuming this is the correct approach, they pass out an equal amount of food and supplies to every community member. Many collectivist societies, however, have
found that giving disproportionate amounts to members in the community can increase the chance of financial success for the entire community (Corbett & Fikkert, 2012). In a collectivist society, those who are capable of investing their resources and multiplying the benefits positively affect the entire community because successful members share their wealth with the entire group (Corbett & Fikkert, 2012). According to *When Helping Hurts* “This community-based survival strategy reflects indigenous knowledge acquired over centuries of struggling against the elements” (Corbett & Fikkert, 2012, p. 170). The community often has a greater understanding on how to affectively delegate responsibility to ensure survival of the entire people.

c. Teaching business skills

Teaching business skills from a Western perspective to other countries does not always apply because of cultural differences. A well accepted business practice in North America is that eye contact is an absolute necessity. Teaching this to poor people in other countries of another culture can be quite contrary. Eye contact in many countries is culturally rude (Novogratz, 2010). Marketing and sales strategies are not easily transferable because poor women in many countries are not allowed to talk to people they do not know (Novogratz, 2010). In some countries women are not allowed to talk to men at all, with the exception of their husband (Novogratz, 2010).

d. Culturally relevant demands

Understanding culture is also important in understanding the true demands of the market in a society. The demand of products and services is not always the
obvious need or one that a Westerner deems necessary. In reaching the poor with developing technologies it is often overlooked that the human tendency to value vanity and appearance does not only affect the economically wealthy. Researchers developed a quality hearing aid that would be available at an affordable price to the poor in the Middle East, only to find that there was no demand for the product (Novogratz, 2010). Culturally, there was shame in wearing a hearing aid. Because it was better to live with hearing loss than the shame of wearing a hearing aid, the technological breakthrough was not successful. Similar failures occur because of the disconnect between the developers and the real demand of the community (Novogratz, 2010).

e. Importance of social marketing

The poor not only need the necessities of survival, but also want goods that will change their status. Even after the importance of mosquito nets was introduced, the health benefits alone were not entirely enticing enough to create a strong demand for them (Novogratz, 2010). The local people had to market the nets throughout the streets as a commodity that would provide comfort, beauty, and status as well (Novogratz, 2010). The effectiveness of the nets was directly related to the value that people placed on them. This value was not always the obvious desire to prevent malaria. Statistics show that people who were given free nets stopped using them after a couple years whereas those who purchased them continued to use them (Novogratz, 2010). Goods are perceived to be of greater importance and value when one has to pay for them in some manner.
f. Mistakes of the economically removed

Undoubtedly people of removed cultures do not understand the effects of the ‘help’ they are trying to impose upon the poor, yet it is not solely geography that can create a dangerous divide. Economic classes can be just as ignorant about a differing class of their home country as those of a foreign country. The wealthy people of an underdeveloped nation can also make mistakes when trying to improve their country and impose devastating effects on the poor of their own country in which they advocate for (Novogratz, 2010).

Working in Uganda, Novogratz witnessed a tragedy unfold as the result of the economically wealthy being too far removed from the poor (Novogratz, 2010). In Uganda, the women in parliament fought to repeal the tradition of a ‘bride price’ in order to liberate women (Novogratz, 2010). When the notion was finally passed, the women celebrated, but the poor were irate (Novogratz, 2010). In the eyes of the poor women of Uganda, women were worth even less to the men in their country without the ‘bride price’ (Novogratz, 2010). The woman responsible for the notion was killed by the next morning (Novogratz, 2010). She states “The female parliamentarians themselves were apparently out of touch with their own rural countrywomen—not unlike elites around the world today, who often don’t really know the poor who elected them” (Novogratz, 2010, p. 64). Creating solutions for the poor, without the input of the poor, often harms the ones intended to benefit, and ignorance can kill those who were trying to help.
g. Disqualifying the privileged

Many missionaries have found that their nationality and skin color bring them adversity when trying to help the poor in the developing world. Novogratz, an American who has spent the majority of her life working in the developing world to bring sustainable growth to communities and economies at large expresses her view on her ability and qualification of this work (Novogratz, 2010). She says:

I was privileged. I'd been to some of the best schools on the planet and was raised by a loving family, and my white skin offered me significant access. The question wasn't whether I was privileged, but whether that privilege disqualified me from effectively running the program (Novogratz, 2010, p. 157).

Outside resources are not always wrong. Abundant resources and power should be used for the good of others. However, how money is given and to whom it is given decisions to be taken with caution. Injecting money needs to be done in ways that build up local organizations and empower the poor (Corbett & Fikkert, 2012).

E. Short Term Missions: Expense vs. Effectiveness

Short-term mission trips have been increasingly popular in the last decade. Churches, non-profit, and for-profit organizations have jumped on the idea of taking a small group of the economically wealthy to an economically poor foreign country for a week or two. Teaching classes, handing out supplies, and taking pictures with the local children, this is normally the most exposure an American has with foreign poverty. These experiences of joy and short-term success can lead to a self-
proclaimed expertise on the foreign culture and best practices in aiding those in poverty. The experiences gleaned from such short visits are often skewed and can cause further harm to the local people.

Disregarding cultural differences, Americans often waste time and resources on efforts that go unused. For example, a short term mission team’s success in building a house for a poor family in a foreign country often ends up unused because it was culturally built wrong (Corbett & Fikkert, 2012). The layout of the house was culturally embarrassing, such as having the toilet inside the home (Corbett & Fikkert, 2012). The team’s disregard for any input from the receiving family resulted in wasted resources. Projects that add little real value to the people due to cultural differences will also be abandoned. “All around the world one can find donated equipment that is rusting away, latrines that have never been used, community associations that have disbanded, and projects that disintegrated soon after the nonprofit organization left town” (Corbett & Fikkert). Furthering the problem, most short-term teams will never know that their efforts were squandered because the receiving people will only show gratitude until the mission team has left, and the problem will continue with future short-term mission trips.

Short-term mission teams are often very efficient, using their time wisely to be as productive as possible within two weeks. Mission teams want to see houses built, medical treatment to thousands, and have enough success stories to take home to the sending organization so that they will continue to fund these mission efforts (Corbett & Fikkert.) The problem with this agenda is that getting things done quickly is not what creates lasting development. According to When Helping Hurts
(Corbett & Fikkert, 2012) “Development is a lifelong process, not a two-week product” (p. 167). They also state that:

By definition, short-term missions have only a short time in which to ‘show a profit,’ to achieve pre-defined goals. Projects become more important than people. The wells dug. Fifty people converted. Got to give the church back home a good report. Got to prove the time and expense was well worth it (p. 168).

Because short term missions are often funded by individual donors, churches, or other organizations, the goal of success transitions from a focus on long term progress, to appeasing the donor with a productive progress report and exciting stories.

Short-term mission trips are very expensive and most host communities would actually rather the mission team send them the money it cost to get them there than for the team to actually make the trip to come to them (Corbett & Fikkert, 2012). Unless the experience of the short-term team would encourage them to send more money to the poor community in the long run, the local developers almost always prefer the money over the people (Corbett & Fikkert, 2012). The work that westerners do in poor countries also costs more than if the local community would have done it themselves (Lupton, 2011). A mission team may spend $30,000 on building a home in a poor country when the locals could have done it for $3,000 (Lupton, 2011). Those who defend the need for expensive short-term missions argue that the trips are an investment. The experience of the missionaries will encourage them to be generous donors to poor communities long-term and produce
more long-term missionaries. However, Ver Beek, a professor of Sociology at Calvin College, published data that indicated there was not a significant increase in long-term financial giving or an increase in long-term missionaries after people had experienced a short-term mission trip (Corbett & Fikkert, 2012). According to Corbett & Fikkert (2012) “In summary, the returns do not seem to justify the investment” (p. 174).

To improve the efforts of short-term mission teams, a number of criteria should be analyzed. The host community should have requested a short-term team to help them improve their community (Corbett & Fikkert, 2012). The leaders of the host community should have also been directly involved in developing the plan to transform the community and delegating the tasks and responsibilities to the short-term team (Corbett & Fikkert, 2012). Also, refrain from short-term mission brochures that have sad and filthy children’s faces on them (Corbett & Fikkert, 2012). This type of marketing portrays that the poor are helpless without the intervention of the short-team team. It is also crucial that the short-term team views the trip as a learning experience, rather than saving the world (Corbett & Fikkert, 2012). Misunderstanding this will only perpetuate the god-complex of the economically wealthy and diminish the skills and resources that the economically poor communities have to offer. A short-term mission team leader should require learning about the culture and poverty situation before the trip, but more importantly, one should hold follow-up learning classes after the trip (Corbett & Fikkert, 2012). These experiences can be exciting immediately following the return home from a trip, but without learning to implement the new knowledge, the
expensive short-term trip is not justifiable. The emotional experience will eventually fade and left is a lack in understanding on how to practically help people in need who are geographically distant.

F. Pure Market System Leaves Most Vulnerable Behind

In pure markets, sellers and buyers find each other to trade at a value to both parties. We don’t always understand the incentives and constraints people are bound with that don’t allow this market system to provide for people (Novogratz, 2010). Those who have very little may not be able to compete with the lowest prices because it is the only thing they have to sell (Novogratz, 2010). They cannot trade for less than they need to survive another day. While philanthropy lacks necessary feedback, a capitalistically driven market leaves no mercy for the most vulnerable people (Novogratz, 2010). The markets alone will not solve poverty, but caution and wisdom are critical when intervening with economic structure of a community.

G. Requested Help

While intervening in poor communities can be gravely important, it is important, for reasons greater than just being respectful, to wait to be asked for help. Novogratz was originally confused by the resentment she faced from the Africans she was trying to help. She finally received an explanation for their harsh treatment of her.
We actually like that you're such a nice girl with much to offer. What we hate is what you represent. The North comes to the South and sends a young white woman without asking us what we want, without seeing if we already have the skills we need. We've seen this too many times before. Africa will never change if it's always like this (Novogratz, 2010 p. 28).

After this, Novogratz concluded that compassion was not enough (Novogratz, 2010). She decided she would only work with people who requested her assistance (Novogratz, 2010). Working to alleviate poverty in foreign countries is not only culturally complex, but can also be unwanted. Causing damage to a foreign community can be avoided by recognizing that one needs to be asked for help. In waiting for this request organizations can avoid undermining the local help currently at work and avoid the tendency of paternalism.

i. Undermining local efforts

The economically wealthy often forget that amongst the Majority World, there are already local people involved in alleviating poverty. By failing to realize this, an outsider's actions can easily negate any progress the local workers have accomplished. North Americans are quick to distribute handouts in situations that locals may consider unwise or dependence creating (Corbett & Fikkert, 2012). By undermining the local help, organizations can even undermine the local discipline, accountability and stewardship of savings institutions (Corbett & Fikkert, 2012). Outsider help can also destroy any progress locals have made by creating standards they cannot compete with.
For example, churches often send mission trips to poor communities and hold Bible schools for the children. In numerous cases, the local people had already been holding weekly Bible studies for children but reported that after a short-term missions team conducted one in the community, the children stopped going to the locally conducted one (Corbett & Fikkert, 2012). The local staff reported that children stop coming to their studies because they do not have the fancy crafts, creative games, and free gifts that the short-term team offered (Corbett & Fikkert, 2012). The children lost interest because they had experienced something more exciting for one week, but the locals do not have the resources to compete with the wealthy outsiders. The intention of creating interest for the Bible stories in the children failed by distracting them with material things and destroying all the efforts of the local people. Few people will refuse a wealthy outsider's help even if they resent it (Corbett & Fikkert, 2012).

ii. Avoiding paternalism

After receiving the invitation to help a poor community, it is important to avoid paternalism. Paternalism means refraining from doing things for people that they can do for themselves (Corbett & Fikkert, 2012). Types of paternalism include resource, knowledge, labor, and managerial (Corbett & Fikkert, 2012).

Resource paternalism occurs when Westerners pour money and material resources into impoverished communities of the Majority World instead of allowing local people to steward their own resources to assist in alleviation. Not only does this undermine the local ability, but also it can negatively affect the local economy.
by disrupting the supply and demand of goods and put local business owners out of work.

Knowledge paternalism develops when outsiders believe that they know best (Corbett & Fikkert, 2012). Responsibly using knowledge can be complex. Often outsiders do have knowledge that the poor can gain from, but it is imperative that outsiders realize that locals have a lot of cultural context and insight on circumstances that outsiders do not understand. Like all people, the materially poor can benefit from the knowledge of others, but it is consistent with the god-complex to believe that economically wealthy individuals are experts on understanding poverty alleviation in foreign lands simply because of their economic standing (Corbett & Fikkert, 2012).

Labor paternalism consists of doing physical work for others that they are capable of doing themselves (Corbett & Fikkert, 2012). This type of paternalism often surfaces in short-term mission trips, where people build homes or playgrounds. This is also common in clean up efforts post natural disasters. Clean up crews repair homes or gather debris, while able-bodied locals sit and watch. By invading a community and providing physical labor that they are capable of themselves, the aid workers have taken ownership in rehabilitating or developing a community who needs leadership that will remain after the aid workers move on.

Similarly, managerial paternalism is when outsiders take the leadership role in alleviation. Middle to upper-class Americans value efficiency and readily take charge if things are not moving fast enough. It seems logical to believe that the locals need the leadership if they would have taken charge themselves. However, in
the Majority World, locals know the Western tendency to take authority and know that if they wait long enough, the wealthy aid workers will take charge (Corbett & Fikkert, 2012). The goal however, is not to build houses, but to build up the process of the poor developing and stewarding their own communities. Just as a child must learn to walk independently, people need to be allowed and motivated to take ownership of their own abilities in order to be independent. Creating dependency does the person or community a disservice by denying their own development and creating a cycle of continual need that could have been fulfilled on their own, had they been challenged to use their own skills.

III. ASSESSING APPROPRIATE TYPE OF INTERVENTION

A monumental step in poverty alleviation is in understanding how to intervene responsibly. By evaluating the type of need, one can accurately react with the appropriate aid. By categorizing the types of hardship into relief, rehabilitation, and development, the negative consequences of misguided poverty alleviation efforts are greatly diminished (Corbett & Fikkert, 2012).

A. Urgent: Relief

A urgent situation can be defined as one where there is temporary emergency (Corbett & Fikkert, 2012). Aid is needed to reduce the immediate suffering from either a natural or man-made disaster (Corbett & Fikkert, 2012). When the situation is a disastrous incident, the “bleeding must be stopped” before any steps toward restoration can be made. In an urgent situation, any delay in
Response will have serious consequences. Response to an urgent crisis is appropriately aided through relief, which is taking the responsibility of caring for people materialistically, assuring they have food, shelter and medical care. Furthermore, “relief may even be the right intervention, but you may not be the right person to offer it” (Corbett & Fikkert, 2012). If local people are capable, it is not the outsider’s place to take initiative. Relief from the wrong people can have crippling effects in leadership and repair in the long run.

B. Rehabilitation: Restore

Rehabilitation is the stage that immediately follows relief. Once the bleeding has stopped, the goal is to restore people to their previous livelihood (Corbett & Fikkert, 2012). Continuing relief creates dependency and deters the community from standing on its own feet. In rehabilitation, restoration comes through working with people as they begin to build themselves back up. Assistance may be necessary, but it is almost never appropriate to do something for someone that they can do for themselves (Corbett & Fikkert, 2012). The community’s own participation in recovery is essential to regaining independence. The community should be directly involved with assessing, implementing, and evaluating the plan of action (Corbett & Fikkert, 2012). Outside help should only be implemented when the local people and organizations are unable or unwilling to restore the community (Corbett & Fikkert, 2012).
C. Development: Empowerment

The third stage of need is development (Corbett & Fikkert, 2012). The key to aiding a situation in need of development is through empowerment (Corbett & Fikkert, 2012). The focus is to create ongoing change, which is made possible by refraining from doing everything for people and allowing them the opportunity to help themselves. When there was not a recent crisis that needs to be attended to, it is most appropriate to skip to the development stage approach.

Most harm comes from misdiagnosing a situation as urgent and in need of relief. When people experience another country where people are hungry or without clothes, the normal response is to go home and send back clothes and money for food. However, Greer, who works with international philanthropy and is a witness to many mission efforts that result in the receiving community eventually saying, “Your help is hurting” (Bowyer, 2013). A handout, which is only appropriate in the relief stage, is often easier than rehabilitation or development. Handouts, however, are not capable of solving the problem but only masking the symptoms. According to *When Helping Hurts*:

The reality is that only a small percentage of the poor in your community or around the world require relief. These would include the severely disabled; some of the elderly; very young, orphaned children; the mentally ill homeless population; and victims of natural disaster (Corbett & Fikkert, 2012, p.174).

When labeling the situation into one of the three categories, one may have to choose “tough love.” This does not mean, refrain from helping the destitute but to take a rehabilitation or development approach, rather than relief. Assessing the person’s
responsibility for a crisis is also important in deciding how to aid the situation. Allowing people to feel consequences of their actions is important in learning and growing. It is also important to analyze the extent a person has already been receiving relief. Relief is not a long-term solution and should quickly transition into rehabilitation (Bowyer, 2013). Often Americans accurately diagnose the correct intervention for poor people in North America but completely ignore these concepts when working with the poor in the Majority World (Corbett & Fikkert, 2012).

IV. DEVELOPMENT INTERVENTION: MICROFINANCE AS A SOLUTION

The majority of poverty alleviation falls under the category of development, needing empowerment. Empowerment can be obtained by utilizing an investment approach to aiding the poor. Investments are the process of allocating resources for a better future. Through investing in the poor, the cycle of poverty can be broken instead of fed another day as people are enabled to help themselves.

A. Microfinance

Investments to the poor can be made through microfinance. Microfinance pertains to variety of financial services specifically for the economically poor, most popularly through lending small loans (MIX, 2014). Small loans (microloans) are given to small business owners or start up entrepreneurs in poor communities. Microfinance institutions (MFIs) often cater their services to low-income women (MIX, 2014). Currently microfinance institutions are reaching 92 million clients with financial services (MIX, 2014). The poor in the Majority World are
underserved with financial services for reasons including financial capabilities of traditional banks, discrimination, and taking advantage of the poor. Microfinance institutions fulfill this need.

B. Position of the Poor
   i. High rates

   Investments and entrepreneurship require the use of capital. Many researchers believe one of the largest disadvantages to the poor is the lack of access to capital (Corbett & Fikkert, 2012). Typical banks do not always exist in rural economically poor areas (Corbett & Fikkert, 2012). Furthermore, most banks cannot afford to loan such small amounts of money to the poor because of the high transaction costs of small loans (MIX, 2014). In impoverished communities, those who need a loan to invest in their education or business do not have the luxury of access to financial services from traditional banks and are taken advantage of by loan sharks. Loan sharks are those that take advantage of the poor who have no other option and charge the borrower impossible interest rates of 300% or more (Corbett & Fikkert, 2012). A 300% interest rate on even a $25 loan will quickly enslave any desperate entrepreneur in an impoverished community with interest payments. Microfinance institutions specialize in small loans and are able to offer them at standard interest rates (MIX, 2014). With reasonable interest rates, the poor are able to use a loan to prosper their businesses and work towards evading poverty rather than entrapping themselves in debt.
ii. Lack of collateral

Traditional banks also do not want to take on the risk of loaning to poor people who have no credit or collateral (Corbett & Fikkert, 2012). Typical loans are given on the agreement of repayment with interest, backed by the assurance of collateral. In the United States, the reliability of a person to pay back a loan is assessed through a credit score. Credit scores measure the borrower’s history in dealing with money and evaluate the assets that the borrower holds that could be taken as payment in case of default. While traditional banks write off millions of dollars in default to the moderate and richest populations, they have no incentive to try to lend to the poor (Novogratz, 2010).

People in poor communities have historically loaned each other money, assuring payback because everyone knows each other in small communities. To refuse or fail to pay loans would discredit the borrower’s trustworthiness to the entire community. Microfinance institutions have used a similar concept of accountability in the absence of credit scores and collateral. MFIs loan money to self-organized groups of borrowers who are accountable for each other’s debt (MIX, 2014). If one member of the group defaults on their loan, the entire group is responsible for paying what the debtor owed. Microfinance institutions have also used non-traditional sources of collateral such as furniture and other possessions the poor might have. In such cases, the institutions must be very strict about actually collecting in a default situation, even if it leaves the debtor with an empty home. Without this strict ruling, the expectation of repayment has been diminished and other clients will not repay their loans, collapsing the entire institution.
iii. Restrictions on women

Beyond financial reasons, the discrimination of women in many countries has increased the burden of poverty and the hardship of raising children in a poor community. Laws in many countries prevent women from opening bank accounts without a husband’s permission (Novogratz, 2010). Single women, raising families, have an even more devastating time finding work and providing for their children. Microfinance institutions have widely changed the scope of opportunity for women in such countries. The majority of a MFI’s clients are women (MIX, 2014). Studies show that women are more likely to place extra income into education or more food for their children, whereas men are more likely to spend it on alcohol and tobacco (Lott, 2009). MFIs have encouraged and enabled women to provide for their family and pull themselves out of poverty.

C. Grameen Bank & Muhammad Yunus

The great movement of microfinance was sparked by Muhammad Yunus’s initiative in Bangladesh (Nobel Media, 2013). Yunus created the Grameen Bank in 1983 on the principle that a broken economic system could be at least partially mended by organizing poor people into groups in which they could borrow money on the collateral that the group was responsible for each member’s debt (Corbett &Fikkert, 2012). Lending small loans to poor women, Grameen Bank reaped nearly 100% repayment rates (Novogratz, 2010). In 2006, Yunus was awarded the Nobel Peace Prize in the field of humanitarian work (Nobel Media, 2013).
Yunus insured success of his bank by adhering to the founding principles of any bank. Like any bank, lending can only occur when people have faith that the bank is going to still exist in the future (Corbett & Fikkert, 2012). If lenders do not believe the bank will exist in the future, they will not be held responsible to pay back their loan and, therefore, simply will not pay it back (Corbett & Fikkert, 2012). This same principle applies to building microfinance institutions. If borrowers do not believe that the institution will be around in the future, they will not repay their loans, causing the microfinance institution to go under. According to *When Helping Hurts*, “Borrowers’ expectations become self-fulfilling” (Corbett & Fikkert, 2012, p. 206). Since Yunus’s efforts, microfinance and the concept of investing in the poor as a solution to poverty has reached over 100 countries, providing hope and real progress in the Majority World (MIX, 2014).

D. Viewing the Poor as Entrepreneurs

A business approach to poverty alleviation re-establishes dignity. Treating a poor person as an entrepreneur, rather than a charity case, communicates that they are intelligent, resourceful, and capable people who exist in an unfortunate situation (Bowyer, 2013). Lending money to poor people translates that there are high expectations for the poor to successfully do something with their lives instead of waiting for the economically wealthy to hand them something that they may or may not need (Novogratz, 2010). Many cases have shown that more economic progress has been made when loans were given and people have to pay the money back than when grants were given and people don’t have to pay the money back (Novogratz,
Aiding the poor through business transactions, rather than sympathy, also removes the position of power superiority that traditional charity creates. Microfinance creates a business partnership rather than a charity relationship.

E. Handouts are Easier

Alleviating material poverty demands more than making sure that every body is clothed and every mouth is fed. The task is much more difficult than this. Rather than focusing on making sure people have sufficient materials, the focus must shift to empowering people to earn sufficient materials from the fruit of their own work (Corbett & Fikkert, 2012). According to When Helping Hurts, “It is much simpler to drop food out of airplanes or to ladle soup out of bowls than it is to develop long-lasting, time consuming relationship with poor people, which may be emotionally exhausting” and “‘We fed a thousand people today’ sounds better than ‘we hung out and developed relationships with a dozen people today’” (Corbett & Fikkert, 2012, p. 120). Microfinance institutions approach poverty alleviation with a long-term perspective. Microfinance helps people help themselves. True progress requires investing in education and economic systems that create a sustainable community without outsider funds.

V. MICROFINANCE MODELS

A variety of microfinance models exist to provide assistance to the poor. Differences in models can be accredited to the differing sources of funds, expected
returns, and the assigned interest rates. A combination of different models can reach the needs of people amongst complex and dynamic poverty.

A. Grassroots vs. Outside Investors

Before microfinance institutions sprouted, groups of women in Africa were pooling their money together to provide loans for each other (World Bank, 2014). Taking notice of the success of this business approach to escaping poverty, international organizations began to fund such projects (World Bank, 2014). There are advantages and disadvantages for microfinance efforts to use local or donor money.

i. Grassroots

A grassroots approach to microfinance is the creation of a savings and lending organization without outsider money. These types of savings-and-credit associations were originally developed by poor people who formed groups and pooled their resources together (Corbett & Fikkert, 2012). Each group of people contributes an amount of money each week into the savings, which is then lent to one of the members for business purposes. The interest that the group charges the lender is paid to the other members as a return on their investment. All of the group members share in the risk of default and gain when the borrower is successful. Microfinance institutions can provide business training and savings services for such groups (MIX, 2014). According to When Helping Hurts, “Research has shown that the injection of outside funds into these savings and credit groups typically dooms them to collapse” (Corbett & Fikkert, 2012). The grassroots approach
initially seems to be the only approach that should be used, however, yet there are
downfalls to the grassroots method that justify outsider and donor intervention.

Reasons for outsider involvement are that poor people often times fail at
managing their group, keeping accurate records, and enforcing discipline with each
other to pay back the loans (Corbett & Fikkert, 2012). These groups also typically do
not have access to very large amounts of money, even after pooling all of their
money together (Corbett & Fikkert, 2012). An intervention of donor money would
for larger loan amounts that could boost business more quickly.

ii. Outside investors

Because poor communities often lack the funds to provide enough loans for
each other as in a grassroots approach, funds from outside donors can speed up the
process of investing and growing businesses. They also allow for larger loans that
poor groups of people would not be able to pool together. These funds can come
from within in the country, from wealthy citizens or the government, or the funds
can come from investors of other countries (MIX, 2014). Funds from other
countries are referred to as cross-border funds. Most microfinance institutions
operate on cross-border funds from individuals and large businesses (MIX, 2014).

B. Charging Interest Debate

There are debates whether it is ethical to charge interest to the poorest
people on the earth. Whether or not the investor makes a profit, the borrower is
charged interest. Loans without interest, however, are charity. Charity makes the
giver feel superior and the receiver feel inferior (Bowyer, 2013). Charging interest
makes a loan no longer charity but a business transaction (Bowyer, 2013). Business allows the equal exchange, where one has something that another person values and is willing to pay or trade for (Bowyer, 2013). According to Greer, “If you pay back the loan with interest, then you can look the lender in the eye as an equal” (Bowyer, 2013). Interest plays a number of critical roles in alleviating the poor with dignity through business.

i. Covers transactions & recycle costs

Interest allows for the transaction costs of loans to be paid (Bowyer, 2013). Without this payment, there would have to be a donor to cover the cost of the loan, defining the transaction as unsustainable (Bowyer, 2013). Refraining from the constant need for donors, allows for growth on its own. Interest also covers the cost of inflation, allowing the loans to be recycled to another loan recipient in the future (Bowyer, 2013).

ii. Practice to enter real economy

Charging fair interest rates prepares poor people to enter the formal economy (Novogratz, 2010). The goal in investing in the poor is so that they can grow their businesses and be sustainable within their current community. Without charging interest, a false framework for business has been created, in which the poor have learned to do business. As they expand and compete with the current local economy, the interest free market does not exist. Without charging interest, they have not learned how to truly be sustainable with the supply and demand of a free market.
C. Non-Profit vs. For-profit Microfinance

When funds for microfinance clients come from outside sources, the funders are called investors. An investor is one who utilizes or implements resources to create a gain in the future. In microfinance, there are different types of investors. Those who do not desire a financial return but prefer to see a social and economic change are involved in non-profit investing. Investors who seek a financial return are involved in for-profit microfinance programs.

i. Non-profit

Non-profit microfinance institutions charge interest rates that allow the institution to cover transaction fees and inflation, but not high enough to make a profit (Coates, 2009). Investors are satisfied with seeing the economic growth of a community rather than a dividend or capital gain. Depending on the institution and investor, the repaid loans can be used in two different ways. One option, for an organization such as KIVA, is that the investor provides the funds, watches the business grow, and is returned the loan (Kiva, 2014). The investor receives only the principal lent, and the interest is used only to cover transaction costs (Kiva, 2014). A more common option is that the investor donates the funds. The investor provides the loan and does not receive any money back but is satisfied with knowing that economic progress has been made in the poor community (Kiva, 2014). The loan is then recycled to a new client. In this case, enough interest was collected to not only pay the transaction costs, but also cover the inflation rate to perpetuate the loan amount to a new borrower in the future.
ii. For-profit

For-profit microfinance models provide credit to clients at an interest rate lower than loan sharks but high enough to provide a positive return on those who invest their money in microfinance institutions (Tseng, 2010). Instead of relying on donors and government funding, a for-profit institution trades on the stock market, where investors can place their money gain returns from the profits the institution collects. Controversy has erupted over whether or not it is ethical to make money of the world's most poor people (Tseng, 2010). Yunus does not believe that one should make money off of the poor (Tseng, 2010). Those who disagree claim that going public attracts more investor money and therefore more loans to give out to the poor (Tseng, 2010). The poor profit from receiving more loans and investors profit from capital gains. While it may be possible for both parties to financially gain, for-profit microfinance runs the great risk of prioritizing the shareholder's capital gains over the long-term investment of developing a poor community in the Majority World.

VI. IMPORTANCE OF SUSTAINABILITY

To create long-term poverty alleviation solutions, the approach must refrain from charity. Investment approaches to poverty allow people to help themselves, but they also must be self-sustaining. Without a foundation of self-sustainability, businesses inspired solutions are merely complex charity projects.
A. Many Negative NPV Projects

Many business-type projects have been too easily accepted in the process of trying to create businesses and economic development in the Majority World. Without crunching numbers, many creative small business projects seem like a great idea. They create work and create goods or services for the community; however, many projects funded by churches or organizations are not sustainable business practices because the projects have a negative net present value (NPV). A business needs to be able to cover all of its expenses including materials, labor, and transportation (Novogratz, 2010). Without a positive NPV project, employers cannot expect to be paid.

It is also important that the project is projected to last without donor money. Depending on donations or grants makes the project contingent upon the continuation of donors giving, but if the project is profitable, then the project can continue with or without donor money (Novogratz, 2010). A project funded by $650 a month in charity money to keep 20 women earning fifty cents a day is not sustainable (Novogratz, 2010). The income of these women would be tripled if the money were just given to them instead of funding their work (Novogratz, 2010). Novogratz (2010) attests that, "In this case, well-intentioned people gave poor women something 'nice' to do, such as making cookies or crafts and subsidized the project until there was no more money left, then moved on to a new idea" (p. 76). Similarly, loans cannot be given to anyone with a creative idea or heart-felt story.
INVESTMENTS WITH GREATER RETURNS

Loans must be made to people with skills and a viable plan to create a sustainable business (Novogratz, 2010).

B. Dangerous Outsider Reliance

Projects that are not sustainable on their own fall victim to failure as soon as the donors discontinue funding. Donors retire from funding mission or charity projects for a number of reasons. One reason may be that the donors run out of money. When the donor experiences economic hardship, the first thing cut will often be where cash outflows do not produce cash inflows. Therefore, if the project is depending on economic funding from pure donation, it is dependent on the financial well being of another donor.

Another reason donors discontinue funding is because of the loss of interest. Without significant results or stories to capture the attention of the donor population or organization, the donors may discontinue funding because they have found a new project to financially support that they find more interesting. Donors may also experience “interest fatigue” when they do not believe that their contribution is worth the sacrifice or being used strategically (Corbett & Fikkert, 2012). When there is no significant progress or improvement in the lives or economies of the involved project, donor’s morale is reduced and are less willing to give.
C. Sustainable Staffing & Perpetuation

Many organizations raise money to build schools in poor areas of Asia and Africa without addressing how to fund the long-term needs required of a school. According to When Helping Hurts, “Good-hearted people would build schools without thinking about the costs of hiring and supporting a teacher—not for months but for years—and the schools would stand empty” (Novogratz, 2010, p. 98).

Similarly, many projects that seem successful when first implemented are just as short-lived as the mission teams that came to implement them and then left within weeks. When teams revisit months or years later, they often find equipment broken and abandoned (Novogratz, 2010). This is especially true when the supplies and equipment are brought in from outside the local area. If equipment and supplies are not accessible in the local community, the people are at a loss when needing replacements. Projects that are not sustainable without outsider knowledge are equally at risk of failure. If the locals were not trained to fix the equipment, the work they were doing was not sustainable. Without the knowledge of how to use and fix the equipment, the local community is left helpless once the foreign aid leaves (Corbett & Fikkert).

D. Creating False Markets

An important aspect of ensuring a positive NPV project is assessing the real demand of the market. In many cases, outsiders have skewed the market by buying products out of sympathy or the emotional fervor of a “good cause.” Outside “experts” encourage women to make crafts and jewelry, for which there is no
market in their area (Novogratz, 2010). The crafts are piled in homes and rarely purchased, unless a Westerner transports them to their home country to sell. A good story can often get the economically wealthy to purchase the jewelry or knick-knack once, however, rarely will they regularly buy them again. The prices of the goods are simply higher than similar items they could buy in a local store because of the transportation and transaction fees.

E. Failed Management

Once again, good intentions are not enough to sustain a profitable venture. Just as any business, management is critical to success. Well-researched, sustainable projects with a real local demand can still fail because an incapable or unknowledgeable manager directed them (Novogratz, 2010). Unqualified managers could either be a local person who has not had adequate training or an outsider who has funded the project but has little experience or knowledge of the local community or business (Novogratz, 2010). This is common in urban areas of manufacturing, as well as rural areas with farming techniques (Novogratz, 2010).

VII. SHORTCOMINGS OF MICROFINANCE

In recent years, many people have believed that they have found the answer to solving poverty and ending world hunger through microfinance. The problems in poverty today are complex and cannot be solved with a one-size-fits-all solution (Novogratz, 2010). Replicating the success of Grameen Bank, however, has been
more complex than originally understood. Missionaries and aid workers have left checks with the economically poor to begin distributing loans, only to return finding that the money had not been repaid and the locals were asking for more money (Corbett & Fikkert, 2012). While microfinance is an important tool in poverty alleviation, there are shortcomings that must be addressed and complimented by other forms of aid.

A. Missionaries & Churches

Many missionaries and churches have tried to replicate the Grameen Bank by lending small loans to poor people. These organizations, however, are typically not large enough to sustain such an institution. A sustainable microfinance program requires hundreds of clients and thousands of dollars (Corbett & Fikkert, 2012). Many mission organizations are not capable of such large amounts of responsibility. If people receiving these loans do not have confidence that the institution will continue to be around, they will not pay back the loans, causing a collapse of the institution (Corbett & Fikkert, 2012).

B. Saturated Markets

A main goal of microfinance is to create jobs in the market. A shortcoming of microloans has been that it has saturated the market with the same jobs. Loans have been given to hundreds of entrepreneurs in the same community to start up their own business, but many of them are sewing shops, food stands, or clothing stands (Karnani, 2007). These businesses are all competing against each other
without any diversification. Because all of these small businesses are identical, they can only afford to hire one or two other employees besides themselves (Karnani, 2007). The competition of identical businesses prevents the enterprises from growing and being able to increase profits from economies of scale (Karnani, 2007). It would be more profitable to have one sewing shop that hired more people that could exploit economies of scale, rather than ten who are all competing against each other to survive without any real diversification.

C. Expectation of Performance

Along with the expectation of paying interest, people receiving loans must believe that they are fully expected to actually repay the loan. Without this expectation, people will not perform. The reason for many recipients not paying their loans is that they do not believe that the lenders care if the money is repaid because it a trivial amount to them. Some also believe that even if the lenders do care, there will not be any real consequences for default (Novogratz, 2010). Poor people have a very low sense of responsibility of repayment when they believe the money is from nameless rich people who think very little of the poor (Novogratz, 2010).

Microfinance lenders must be very strict, holding to repayment schedules and consequences of default. Even though the loans are small, and the institution will lose very little with one default, the mere idea that default is tolerable cannot be entertained or the pattern of default will spread rapidly and will lead to the collapse of the entire lending system (Rhyne, 2009). Churches and missionaries often do not
INVESTMENTS WITH GREATER RETURNS

apply strict discipline to loan repayment and collecting collateral that is necessary (Corbett & Fikkert, 2012). Without this strict enforcement, again the lenders will not pay back the loans and collapse the system.

D. Receiving Honest Answers

Compounding the difficulty of adequately helping the poor without hurting them is that poor people tend to offer little input and honest feedback. People who have depended on charity for much of their lives have a difficult time communicating their own opinions and needs because no one has ever asked them in the past (Novogratz, 2010). Conventionally, poor people in the Majority World will not confront the ideas or efforts of a wealthy outsider because they either view themselves as inferior or expect the wealthy to have all the answers simply because they are well-off. Wealth often creates a sense of power and the lack of wealth creates a position of inferiority for the economically poor. Believing inferiority, local leadership often endures the humiliation of taking orders from a foreigner who does not understand the culture or even speak the language. The poor also tend to distrust people who are outsiders because they have seen so many people come and go on very short terms without any real improvements in the long run (Novogratz, 2010). The poor are also aware that if they tell a good enough story or answer questions as to what they know the outsider wants to hear, there is a better chance that they will receive money from wealthy (Novogratz, 2010).
E. Need for Wealth, Not Just Income

A lack of income is not the only factor in financial insecurity. Wealth is imperative to the development and stability of a community. While income is the inflow of money into a household from wages, interest, and dividends, wealth is the assets a family has from its savings or inheritance (Corbett & Fikkert, 2012). Wealth includes bank accounts, stocks and bonds, home equity, and land. Holding wealth creates safety by providing a buffer for emergencies and stages of low income (Corbett & Fikkert, 2012). This buffer allows for taking chances in business risk and time for investing in education.

Wealth also allows the opportunity to generate even more income through investments in stocks and bonds, while houses and land can appreciate in value (Corbett & Fikkert, 2012). According to *When Helping Hurts* acquiring and managing wealth “requires people to replace a 'live-for-today,' survival mentality with a 'live-for-the-future,' investment mentality” (Corbett & Fikkert, 2012, p. 188). This transition in thought requires responsibility and discipline and encourages a positive outlook for the future.

F. Need Savings Institutions

Most Americans take financial services for granted. Savings and loans services do not readily exist in poor and rural regions of the world. In 2009, statistics showed that there was only one savings account for every 14 people in Kenya, Africa (Rhyne, 2009). In much of Africa, informal savings groups are very popular (Rhyne, 2009). Without savings, the Majority World lives in a vulnerable
state of ruin from natural disasters, unemployment, theft, and health issues (Rhyne, 2009). Saving is less risky than borrowing money. Most of the Majority World lives without insurance, so without a savings buffer, a number of misfortunes can destroy lives (Rhyne, 2009). Irresponsible borrowing can actually be a life or death decision. Because of this risk, research has shown that poor people are more apt to save their money (Corbett & Fikkert, 2012).

Finding a safe place to save money, however, is a concern for people in many underdeveloped countries. Furthermore, because of government regulations, many microfinance institutions are prohibited from offering savings services (Corbett & Fikkert, 2012). This fact is detrimental to those whose lives depend on the access of loans for the bare necessities to survive (Corbett & Fikkert, 2012). Loan sharks were introduced earlier, but ‘savings sharks’ are also a hindrance to the poor (Corbett & Fikkert, 2012). In countries of high corruption, the poor often distrust banks, which often steal or take advantage of the poor, however, theft is a regular result of hiding savings under the mattress (Rhyne, 2009). Along with access to loans, the poor need the ability to safely save money.

G. Difficulty of Serving Rural & Extremely Poor

High transaction costs make it difficult to reach both the rural poor and the extreme destitute poor. In an area of higher population, it is cheaper to offer loans because of the cost of transportation (Corbett & Fikkert, 2012). While 75% of the poor live in rural areas, it costs more in transportation to reach all of these people that are so spread out, driving up the transaction costs of the loans (Corbett
&Fikkert, 2012). A higher transaction cost would require a higher interest rate from the microfinance institution to allow the loan to be a viable business transaction rather than a charity project. Microfinance also fails to create a solution for the world's most destitute poor. Most microfinance institutions cannot sustainably afford to give out loans that are less than $40 (Corbett &Fikkert, 2012). This can be even too great a debt for the world's most impoverished people.

VIII. OTHER INVESTMENT STYLE SOLUTIONS

Poverty is too complex to be solved merely with microfinance, or any one approach. Novogratz has worked with all kinds of organizations from charities that subsidize the price of crafts made by poor women, to fair-trade enthusiasts who believe it is the only solution poverty. She warns that simple slogans, such as fair-trade promoters saying 'You can change the world by drinking a cup of coffee' are great for marketing but shallow in results (Novogratz, 2010). A number of sustainable approaches must be implemented to alleviate poverty because poverty is a complex, tireless battle. Neither microfinance, nor traditional charity, nor markets alone can solve world poverty (Novogratz, 2010).

A. Social Investment

Social investing is the concept of investing large amounts of money into an entrepreneurial endeavor in an economically poor area without a financial return. Strict business practices are maintained and non-performers are fired just like any traditional corporation (Novogratz, 2010). While these investors don't get a
dividend or return on their money, they get to see growth and change in the world. Unlike microfinance, which invests small amounts of money into a small business, social investments may be investments of thousands of dollars (Novogratz, 2010).

B. Patient Capital

Patient capital is a mix between traditional charity and traditional investments (Novogratz, 2010). Large amounts of money are invested in a company or start-up, realizing that returns may be negative for a while, but that they will eventually pull into the positive range and will be sustainable on their own (Novogratz, 2010).

Jacqueline Novagratz founded the Acumen Fund in 2001 (Novagratz, 2010). While Acumen raises charitable funds, they make careful investments in savvy entrepreneurs who are skilled and capable of creating great businesses but lack the funding and credit to do so (Novagratz, 2010). The Acumen Fund invests thousands to millions of dollars into enterprises that envision reaching at least a million customers (Novogratz, 2010). To ensure that these large amounts of money are used wisely to result in real growth rather than just good stories, the investors are promised the good and bad news of the outcome of the investment (Novogratz, 2010).

One of Acumen Funds' first successful patient capital ventures was Aravind Eye Hospital in India (Novogratz, 2010). Starting with just 11 hospital beds, Aravind grew to serving 2.3 million patients a year within just a few years (Novogratz, 2010). Not only does Aravind provide healthcare and employment, but
it also manages to serve the poorest amongst India while remaining completely self-sustaining and profitable (Novogratz, 2010). Aravind’s business model allows two-thirds of its customers to pay nearly or absolutely nothing by offering nicer accommodations to those who are willing to pay for them (Novogratz, 2010). All patients receive the same quality of service, but those who are willing to pay more are provided nice beds, air conditioning, and other accommodations (Novogratz, 2010). Acumen helped Aravind by providing grants to experiment with new technology and operations including telemedicine that could reach rural people (Novogratz, 2010).

C. Housing & Mortgages

Similarly to loan sharks and savings sharks who take advantage of people who have no other options, billions of poor people living in slums rent their homes from slumlords. Slumlords charge the poor unaffordable rates to live in the most dangerous and destitute conditions, ensnaring them from ever being able to save enough to move out of the slum (Novogratz, 2010). Even if the poor are able to save enough to move out of the slum, a person of such poverty and little credit has no access to a mortgage (Novogratz, 2010). Acumen loaned money to a local developer who bought a plot of land and built houses and, after rigorous applications, offered mortgages to people who were living in slums (Novogratz, 2010). The mortgage payments were less than the rent people were paying in the slums and the tenants would eventually own a home of their own (Novogratz, 2010). Because housing is
such a high priority to the poor, default rates are even lower than on microloans (Rhyne, 2009).

D. Business as Missions

A business-as-missions approach is when an entrepreneur from an economically wealthy country moves to the Majority World and starts a business to specifically attempt to economically grow the area. In order for business-as-missions to be a reasonable solution, it must be a financially self-sufficient business that covers all of its own costs (Corbett & Fikkert, 2012). For example, when missionaries or organizations fund the transportation and marketing crafts to America from a Majority World country, they have merely created a financially dependent business (Corbett & Fikkert, 2012). This is a dangerous situation for the business and employees from the Majority World because success and livelihood is dependent on the generosity and financial wellbeing of another business or another country’s economy.

IX. PERSONAL EXPERIENCE

During the summer of 2012, I interned with an NGO in the Mathare Valley slum of Nairobi, Kenya. The organization attempts to alleviate poverty amongst some of the poorest people in Kenya, using a holistic approach. This method provides assistance to improve multiple areas of life including health, education, and economic status, as well as social and spiritual livelihood. In the economic department, MOHI utilizes microfinance to allow people of Mathare Valley to
receive loans to grow or start businesses. Throughout the summer I worked with the loan officers, assessing loan applicants, collecting loan payments, and holding business-training sessions for the clients. My main responsibility was to interview clients to learn about their successes and failures. Through this, however, I also learned about the successes and failures of microfinance as a poverty alleviating solution.

A. Success Stories

The Kenyan microfinance organization receives the money for the loans they distribute from online donors across the world. The loans are given to accepted applicants who have formed an accountability group with other loan recipients. The entire group is responsible for the timely repayment of the loan. None of the borrowers in the group can receive another loan if one of the group members has outstanding payments. This urgency and encouragement have created a payback rate of 96%. I witnessed start up entrepreneurs who are now able to feed their children, send them to school, and hire other employees because of the growth that these small loans have provided for their businesses. The clients pay interest at a reasonable rate that they could not get at a conventional bank. The most resounding way that the clients told me they benefited from the loans was that they were able to increase the stock they held within their shops. When there was a constant supply of stock, they could gain reliability with their customers, which in turn gave them a reliable income and room to expand their businesses.
The microfinance organization not only gives out loans, but provides skills training and business classes for its clients. The organization has a growing beauty school that trains clients that is providing jobs and raising families up out of poverty. After completing a six-month training program in the beauty school, clients receive a microloan to start their own beauty salon. The students are taught to do quality work and are strictly trained that people should come to them for business because of their excellent work and not out of pity. This is how real economic progress occurs within a community. Once a loan is repaid, clients are eligible to receive another loan of larger quantity. Through this progression, I witnessed businesses expanded, more employees hired, and more children able to go to school because of the family’s success. Throughout the summer I visited clients who were on their fifth loan with the microfinance organization. They had grown their businesses enough that they were able to afford leaving the Mathare Valley slum to rent an apartment at a reasonable rate in a much safer community. Many of the clients’ long term goals are to own their own home and send there children to school.

The difference I saw between loans and handouts was that loans provided opportunity, while handouts only met the immediate need and disrupted the economy for the future. The streets were filled with an abundance of donated clothes from the Majority World being sold at extremely cheap prices. The more clothes that were donated, the less they were worth and the harder it was for the man selling clothing from his shack to stay in business. Handouts provided goods for a person for one day, but the poor person was left without a solution for the next
day. Loans provided a break in the cycle of poverty. With small loans, clients were able to grow businesses and provide for their families without relying on the donations of others.

B. White Girl Problems

A struggle in working with microfinance that I had not foreseen was that the color of my skin and nationality would hinder my ability to be a loan officer. Shadowing a Kenyan loan officer, I would attend the weekly meetings of an accountability group who had received loans. At these meetings, their payments were to be collected. However, when I, a white American, was present, they were less likely or willing to pay the loan officer their dues. The loan officer explained that the clients thought that I was rich and could just give them money. The organization I worked with did not inform the clients that individuals of the Majority World fund their loans. Loan officers explained that if clients knew this, many would not repay their loans because they believe that the small amount of money would not make a difference to a wealthy person. This attitude would collapse the system of repayment. The cultural knowledge of the Kenyan leaders was invaluable to the success of the microfinance organization.

My race also became a problem when I first began interviewing the Kenyan clients. They believed that if they said the right things to my camera, I would give them more money. It wasn’t until I continued to return for weeks and had proven that I was not going to gift them my savings account, or even the change in pocket, that they began to share honest answers to my questions. My appearance also made
it nearly impossible to experience the normal business culture of the area because I would never be treated as a local. I was shortchanged and ripped off in the markets because my white skin automatically made me a wealthy target to take advantage of. There were also moments when I was hailed as having all of the answers simply because I was from a country that represents wealth and power. I could not expect the reactions and observations I observed to be similar to those of a Kenyan citizen.

I have also been on weeklong mission trips in the past, but during this internship, I got to experience an outsider’s perspective to short term mission teams. As I spent the summer interning, there would be a new short-term missions team coming in every week. Their goals, as mine had been in the past, were to build quickly, play with children, and take pictures. This they accomplished, but I also witnessed the drain that their visitation places on the Kenyan nationals. The Kenyans treated them with praise and gratitude, hoping that when the groups went home, their stories would be exciting enough to send back offerings of money. The teams were showered with gifts while the locals starved. After their departure, the construction the team had done soon after broke or went unused.

I also experienced the difficulty of working with a culture that values time differently than my own. It was uncommon for meetings to ever start on time and breaks were frequent throughout the day. Not only did this frustrate me, but with my predisposition of efficiency, I fell victim to doing work for people that they could do themselves when I did not believe they were moving fast enough. In one specific instance, my coworker and I initiated a project to get soap into the schools of the slum. We believed that we were not only improving health and therefore school
attendance of the children but we also were creating a sustainable project because
the schools needed soap and there were soap makers in the slum who needed
business. We bought local equipment and hired local workers, however, we, not the
locals were in charge of the project. This was our major downfall. When the man
hired to install the soap dispensers did not show up, I took a hammer and pick ax to
the walls and began installing them myself. Because we neglected to train the locals,
the soap dispensers were empty and broken by the end of the week. Our good
intentions without the initiation and leadership of the local Kenyans ultimately
resulted in a waste of time and resources. Overall, I learned that even when
microfinance or other investment style projects may be a great solution for a
community, I may not be the best person to offer the aid or implement change. My
role was better suited in providing funds to local leaders who understood the
culture and envisioned sustainable ways to alleviate poverty.

C. Continuing the Investment Theory

An investment approach was taken with all other areas of poverty alleviation
besides microfinance. The organization has opened a school in the Mathare Valley
slum and allows for people all over the world to sponsor children living in the slum
to go to school. This help, however does not come in the form a handout. Parents
must still pay a small fee so that they have stake in their children’s education. The
minimal fee is not enough to cover the costs of supplies, teacher salaries, and
building maintenance. The sponsorship of donors covers the rest of the costs. The
fee, however, is enough to motivate the parents to send their children to school
instead of keeping them home to work. The organization has experienced an enormously high attendance rate because of this policy. Parents do want their children to go to school, but if they don't pay any fees, they lose nothing in the short-term by keeping their children home to work. The short-term needs take priority over the long-term investment of their children's education.

X. SUMMARY & CONCLUSIONS

In summary, this paper discusses how well intended charity and poverty alleviation methods may have less beneficial results than expected. Not only has traditional charity failed to reap the success it anticipated, but often it has created worse situations for the poor than before the outside interference was implemented. Traditional philanthropy, government programs, non-profit organizations, and individuals alike have hurt the poor while intending to help. Philanthropy lacks the feedback that a free market provides. Governments and organizations disrupt local businesses when providing free goods and services. Short-term mission trips also do not respect local economies and are often more expensive than the long-term returns they provide. While relying solely on a pure market system can leave the most vulnerable people at impossible disadvantages, help is often misguided when the local people do not request it.

There are different stages of crisis, including urgent, rehabilitation, and development. Each of these stages require a different response of aid. Once the situation is no longer urgent, investment solutions are the best solution to rehabilitate and develop a community. Microfinance is one solution that
provides small loans to entrepreneurs to allow the poor to help themselves. Poor people living in the Majority World do not have access to traditional banking and savings institutions. With the use of microloans, entrepreneurs can build businesses, pulling themselves and others around them out of poverty. While handouts take less effort from outsiders, loans and other investment style solutions provide lasting change rather than simply providing for immediate needs.

While there are different models of microfinance, including grassroots, outside investors, non-profit, and for-profit, all models reiterate the importance of a self-sustaining approach to poverty alleviation. Relying on continuous outside intervention creates a dangerous dependency. Many well-meaning projects leave the poor in vulnerable positions when their livelihoods depend on the sympathy or generosity of others. Creating real business within poor communities creates independence and long-term growth of poor communities.

Microfinance has had great success in the Majority World, however, poverty is complex and requires equally complex solutions. Microfinance alone cannot address all of the underlying factors that create poverty. Microfinance can be equally ineffective as traditional charity when managed by outsiders rather than local leaders. The poor in the Majority World lack savings institutions and access to mortgages. Other investment style solutions such as social investments, patient capital, and business-as-missions are used to sustainably alleviate poverty.
The combination of my own research and own experience concludes that an investment style is the best approach to alleviating poverty. Whether working in the economic sector, or other areas including health and education, helping people help themselves is the way to create change. Microfinance allows hardworking entrepreneurs the opportunity to pull themselves and others around them out of poverty rather than simply feeding the cycle. While poverty is complex and demands more complex solutions than relying on microfinance as an exclusive solution, an investment style solution remains the most effective way to induce sustainable change.

Assessing the classification of crisis is the first step in effectively meeting the situation with a solution. Once it is confirmed that the situation is not an urgent state that requires relief, as it is not in the majority of cases, then the process of investing in people can proceed. Investing may or may not include a financial return to the investor. Often the returns of investing in a developing community are greater than any financial return.

Appropriately assessing a need, an outsider’s role in meeting that need, and investing in the right resources are essential to helping the poor without hurting them. Good intentions are not enough to outweigh the devastating consequences of ignorance. Years of well intended philanthropy, charities, and mission trips have devastated poor people across the world. Change can only begin to occur when the poor are treated as business partners and people with potential rather than charity cases. Investing in people and economies is absolutely more difficult and takes longer than just throwing money and
resources at a poor community. It is easier to mask the symptoms than fix the underlying problems. Investments, however, provide the incentives and opportunity to bring forth real change toward an improved future.
References


