



Executive Book Summaries®

www.summary.com

Microcredit, Barefoot Banking, and the Business Solution for Ending Poverty

A Billion Bootstraps

THE SUMMARY IN BRIEF

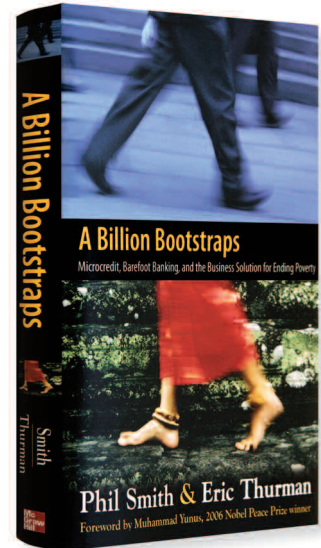
A Billion Bootstraps shows why microcredit is the world's most powerful poverty fighting movement — and an unbeatable investment for your charitable donations. It unearths the roots of the microcredit revolution, revealing how the pioneering work of people such as Dr. Muhammad Yunus — winner of the 2006 Nobel Peace Prize — is giving hope to billions of people. Philanthropist and self-made millionaire Phil Smith and microcredit expert and consultant Eric Thurman provide a riveting narrative that explores how these small loans, arranged by “barefoot bankers,” enable impoverished people to start small businesses, support their families and improve local economies. By paying back their loans instead of simply accepting handouts, men and women around the world are continually giving others the same opportunity to change their futures.

Smith and Thurman also examine why traditional charity programs, while providing short-term relief, often perpetuate the problems they're working to alleviate and how applying investment principles to philanthropy is the key to reversing poverty permanently.

Ordinary people can accelerate the microcredit movement by investing charitable donations in specific programs and then leveraging those contributions so the net cost to lift one person out of poverty is remarkably low. The authors show readers how to get more for their money by donating with a mind-set of an investor and calculating measurable returns — returns that will change lives and societies forever.

IN THIS SUMMARY, YOU WILL LEARN:

- Why many donors are tapping into the power of the microcredit revolution.
- How microloans help poor people around the world expand their businesses, educate their children and improve their communities.
- How to become a better charitable donor and get better results.
- How to identify the best projects to support.
- Why lending programs are an ideal context for delivering social services.



by Phil Smith
and Eric Thurman

CONTENTS

The Power of What Works

Pages 2, 3

Beyond the \$900 Billion Black Hole

Pages 3, 4

Giving Credit Where Credit is Due

Pages 4, 5

Barefoot Banking

Pages 5, 6

Microcredit Plus

Pages 6, 7

A Thousand Battles, A Thousand Victories

Pages 7, 8

The Best Due Diligence

Page 8

Tough Love Leads to Happy Endings

Page 8

THE COMPLETE SUMMARY: A BILLION BOOTSTRAPS

by Phil Smith and Eric Thurman

The authors: Phil Smith is an active philanthropist who writes and speaks under the banner Practicing Significance. Smith is the former CEO of Prize Energy Corp. and Tide West Oil Co.

Eric Thurman has been a leading expert in international philanthropy for decades. A former CEO of Opportunity International, HOPE International and Geneva Global Inc., he is now CEO of The Protos Fund. He has been profiled in *Forbes*, on CNN and in many other media forums.

Adapted by arrangement with The McGraw-Hill Companies, Inc., from *A Billion Bootstraps* by Phil Smith and Eric Thurman. Copyright © 2007 by Phil Smith and Eric Thurman. 224 pages, \$24.95. ISBN 978-0-07-148997-3.

Summary copyright © 2008 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495.

The Power of What Works

After 30 years in the oil and gas industry, Phil Smith earned a fortune when his company was merged out of existence. The owners and managers of his company shared a profit of \$30 million. With the capital earned from that experience and lessons absorbed in how to run a profitable business, Smith went on to be a part of many other successful business ventures.

In 2002, Smith ended his career in the oil and gas industry, leaving as CEO and chairman of the board of a publicly traded company whose investors had received returns of more than three to one in three years. He then chose to begin a new kind of career focused on purposefully living the second half of his life. Wanting to have a direct impact on people's lives, he searched for nonprofit organizations that were financially efficient and where he could make a difference.

In November 2003, while sitting in the Dallas/Fort Worth Airport waiting for his flight to Rome, he read an article in the *Dallas Morning News* titled "What will a \$50 loan buy?" The article explained how Lucy Billingsley, a Dallas real estate developer, organized and motivated several hundred Dallas women to raise money for microloans to poor women in Mexico — and changed their lives. The women in Chiapas were repaying their loans, starting or expanding their businesses and sending their children to school as well.

Billingsley had collected hundreds of thousands of dollars to help the poor using a new idea: *microcredit*. This project was clearly different from a typical charity project dedicated to feeding the hungry, treating the sick and

clothing the naked. This was a project that loaned people the money they needed to help themselves and to create a sustainable future. With capital and sweat equity, poor people can change their lives. Financial "bootstrapping" with small loans is something all of us can benefit from; it has global application.

After Smith returned from his trip, he wanted to find out the nuts and bolts of microcredit and how it works on a practical level. He wanted to know how microcredit works so it could be efficiently applied to new situations, and he wanted to understand why what is working so well in developing countries is not being used to help the poor in developed countries.

Investment Philanthropy

Eric Thurman, a world leader in philanthropy and microcredit, was profiled in an article in *Forbes* called "Contrarian Charity: You want big returns on your investments, so why not on your charitable giving, too?" When Smith found the article during his research, he called Thurman to talk about microcredit and investment philanthropy.

Thurman told Smith that many people share his concerns regarding the fate of the indigent in developed countries, using the rationale that the lives of basket weavers in Uganda are equal in value to those of our next-door neighbors. But, unfortunately, Thurman explained, microcredit, which works so well in developing countries, does not appear to work equally well in developed ones, and he suggested that Smith do the math to enable him to understand why.



1-800-SUMMARY
service@summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: \$209 per year in the United States, Canada and Mexico, and \$295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2008 by Soundview Executive Book Summaries.

Available formats: Summaries are available in print, audio and electronic formats. To subscribe, call us at 1-800-SUMMARY (610-558-9495 outside the United States and Canada), or order on the Internet at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Rebecca S. Clement, Publisher; Sarah T. Dayton, Editor In Chief; Athena Nicolaidis, Art and Design; Chris Lauer, Contributing Editor

Summary: A BILLION BOOTSTRAPS

Smith worked through equations honed by microcredit experts and then created his own. They all led to the same conclusion: By focusing their giving dollars on microcredit loans in developing nations instead of on charities in the developed world, givers multiply the impact of their donations by much more than 100 times.

After a dinner with Thurman, Smith applied the same investment principles to philanthropy as in leveraged buyouts, IPOs and hedge funds. He found that the same principles that bring success in the financial world could be applied to helping develop the economies of poor countries anywhere in the world.

Changing the World

Microcredit is well on its way to changing the world. Innovators like Bill and Melinda Gates, and others, including Bill Clinton and Brad Pitt, have discovered that microcredit is a powerful tool that can be used to solve many of humanity's most difficult problems. It is so powerful that the impact of microcredit on poor families and communities around the world already goes far beyond typically held views of what is possible. Microcredit makes common sense, and its impact is measurable both financially and in terms of lives changed.

Learning about microcredit and ways that microcredit organizations can leverage contributions has become Smith's personal passion. He sees how tiny loans can change the destiny of more than a billion of the world's working poor. His mission is to help at least 1 million of them start bootstrapping themselves out of poverty.

With 3 billion people living on less than \$2 per day, Smith knew that he needed to share both the problem and the solution with more people. Dr. Muhammad Yunus and the Grameen Bank won the 2006 Nobel Peace Prize for pioneering work in microcredit. Finally, microcredit is headline news, an idea whose time has come. ●

Beyond the \$900 Billion Black Hole

Eric Thurman's career has included a mix of owning businesses and running enterprises for others, serving as an active donor and managing tens of millions of philanthropic dollars for foundations and individuals. His extensive experience leading philanthropic organizations includes supervising microcredit programs in more than 30 countries and directing grant making for a wide range of programs in 102 nations. He has spent his career at the intersection of business and philanthropy.

This intersection is lightly traveled despite the magnitude of nonprofit activity, which is \$900 billion in capital in motion annually in the United States alone. Charity finances and sound business practices often do not merge naturally. Those signposts that routinely mark the path to success in business are often missing on the charity highway. An example of this contrast between the approaches used in nonprofit versus for-profit business practice is the fact that almost all charitable giving is defined solely by the amount involved; seldom are other factors considered. Any savvy businessperson knows that price alone does not define whether a deal is good. Attention to detail can reveal that a cheap price is not a bargain and, alternatively, that sometimes a higher price can be a better value. Even more significant is that business has reliable ways of determining when a transaction is desirable.

A Better Donor

The discipline of thinking about such details is not nearly as common in the charitable world as in business — and that discipline is badly needed. Following it will make you a better donor and ultimately force charities to achieve better results. The trend of business leaders adopting philanthropy as a top priority has been positive in large part because of the business acumen they bring to their giving. They base their decisions on the results expected and insist on knowing how their donations will be used. Only then do they decide the amount they will give. This is tremendous progress for donors, for charities and for the people they wish to help.

The United States alone has nearly 2 million registered nonprofit organizations, twice as many as 25 years ago. During the past decade, the number of nonprofit organizations grew nearly three times faster than the number of for-profit businesses. By the time you put together all of the donations, dues, fees and government grants, the total budget for U.S. nonprofits tops \$900 billion a year. These nonprofit groups employ more people than the real estate, insurance and finance industries combined. Nine out of 10 U.S. households give to charitable causes.

How can we have a free charitable sector along with quantifiable great results? The answer lies with donors. The most constructive force in philanthropy is intelligent donors. When you give carefully, not only do you help a good cause, but you also encourage progress and accountability among charities.

The biggest problem is lack of meaningful results. A good habit to develop is to think “accountable for results” every time a charity representative or publication says “accountable.”

Summary: A BILLION BOOTSTRAPS

Intelligent Giving

Responsible charities are eager to restore and maintain public trust. Donors can help that occur by following sound giving practices. Invest your giving so that it actually changes lives for the better. Results count most. Businesslike analysis will make you an intelligent giver. Simply follow these three rules:

- **Have a bottom line.** Intelligent givers always have a bottom line — the outcome they expect from their giving — which can be general or specific. Your giving becomes an investment when you ask critical questions about outcomes.
- **Measure success.** The next step is to select one or more indicators of results. Find out how many lives your contribution will directly affect. Press for a simple, specific list of how many people will be leading better lives and in what ways as a direct result of your donation. By measuring results that are a direct consequence of your donation, not the charity's overall budget, you have a much better idea of the effects of your giving.
- **Support what works.** Resist being enticed to donate because of clever new ideas, convincing presentations or winsome fundraisers. A more intelligent way to give is to find a group that has a proven track record and back it in a way that allows the group to take the same benefits to more people.

Identifying Projects

The process of identifying excellent projects to support is not difficult. In every corner of the globe, there are scrappy local groups deeply dedicated to their communities. In many cases, they have delivered successful projects that have rescued children or provided clean water or some other major lifesaving accomplishment with little or no money. Getting behind these unsung heroes and providing the funds to double or triple their impact is an exceptional way to achieve your philanthropic objectives. An added benefit is that the cost to change a life is minimal. ●

Giving Credit Where Credit Is Due

The fundamental premise of microcredit is that people can improve their incomes through hard work if given small loans to strengthen their businesses. This premise has been proven true by millions of borrowers who are now building their tiny businesses, supporting their families and repaying their microloans so that others can have a chance at the one break they need to succeed. These

borrowers are actively changing the futures of their families instead of begging or helplessly waiting for the next installment of charity aid, which may never come.

As a weapon against poverty in developing countries, microcredit is as vital as education, health, human rights and good government. To highlight its importance in eliminating poverty, the United Nations declared 2005 the International Year of Microcredit.

Why does microcredit work so well in developing countries? The economies of developing countries are entirely different from those of developed countries. These economies operate on a much smaller scale, a microscale, compared to the economies of the developed world. What those in the developed world might consider pocket change can represent a doubling of income for impoverished people.

Cash Only

More than half of the world's population operates in a cash-only, informal economy. *The Economist* reported that nearly 60 percent of nonagricultural employment in Latin America and 67 percent in Africa is in the informal sector. In India, nine out of 10 workers are in the informal sector, contributing 60 percent of net domestic product and 70 percent of income. Informal businesses are typically the only viable employment options for the poor.

In developing countries, most poor people do not have access to financial services. Either credit is not available from any source or only from unscrupulous lenders. With just a tiny amount of fair credit, people are able to open and expand businesses by adding inventory or equipment, implementing a competitive advantage or seizing a market opportunity.

Though the income derived from microbusinesses is not large, neither is the cost of living of the individuals who run them. That is why the minor increase in income, which stems from appropriate use of microcredit, can give families the financial boost necessary to increase their standard of living.

Microenterprises

Microenterprises are small-scale versions of the same types of businesses found in developed countries. Twenty hens and a coop constructed from scrap material become a poultry enterprise. A produce store may be a rickety wooden cart piled with mangos picked that morning by the driver or purchased from a local farmer. Hives, bees and a collection of mismatched used jars are a honey

Summary: A BILLION BOOTSTRAPS

factory. A pedal-powered sewing machine is the local equivalent of a clothing factory. An outdoor clay oven is the village bakery. With a microloan providing working capital, these businesses can support families and boost the grass-roots economy for the whole community.

Some of the most crucial benefits of microcredit are far more than financial and cannot be measured on a balance sheet. The true benefits are dignity and self-esteem, along with respect for family and community. Microcredit enables people to become givers, not takers. Microcredit should not be seen as charity but rather as the opportunity poor people need to build a decent life. Through microcredit, donors can shed the old handout mentality and become true partners in progress with the people of the developing world. ●

Barefoot Banking

Mao Zedong's program for public health in China remains a legend. In 1978, a conference of the World Health Organization unanimously passed the Declaration of Alma-Ata praising the Chinese solution for universal health care, a solution that became known as *barefoot doctors*.

In 1965, Chairman Mao announced his plan to provide health care services to rural China using barefoot doctors. They were simply farmers from different agricultural communes who had received a few months of practical medical training. They learned to dispense drugs, set bones, deliver babies and treat wounds and many common diseases. Returning to their homes after the training, they split their time between farming and treating fellow workers. This program brought at least a rudimentary level of health care to all levels of society.

During the nearly three decades that barefoot doctors were on the front line of Chinese medicine, the data show that they measurably improved the health of the nation. According to the *Harvard Public Health Review*, "Between 1952 and 1985, China's average life expectancy rose from 35 to 68 years. Infant mortality plummeted from 200 deaths per 1,000 live births to 40."

Changing Lives

Just as barefoot doctors were vital to bringing basic health care to previously underserved populations in China, a similar approach is now required to address the absence of legitimate financial services for the majority of the world's people. In a parallel to China's barefoot doctors program, microcredit is sometimes referred to as *barefoot banking*.

Barefoot banking may sound quaint, but do not underestimate its importance or power. Microcredit has an impressive record of changing lives. Keep in mind, however, that authority in microcredit rests more with members of the borrowers group than with the loan officers. Peer pressure within groups of borrowers guarantees that everyone pays on time. All financial transactions take place in the open at regular group meetings. This approach ensures mutual accountability and builds trust quickly in communities where corruption and exploitation have long been the norm.

These grass-roots financial institutions are generally referred to as *community* or *village banks*.

The Nuts and Bolts of Community Banking

Barefoot banking operates according to proven, well-documented principles. The following are a few of the guiding principles that are the norm in the microcredit industry:

- *Small loans* increase borrowers' incomes by allowing them to seize business opportunities or supply day-to-day working capital. Depending on the economic level of the country, initial loans usually range between \$50 and \$500.
- *Small groups* of entrepreneurs cross-guarantee one another's loans. This provides a strong incentive to repay. Tight community bonds are forged, and the resulting peer pressure and peer support are more effective than collateral in ensuring loan repayment.
- *Short terms* help people who are new to credit learn how to use it and be responsible. Initial terms of four to six months keep borrowers from becoming complacent and allow the community bank to recycle the money into new loans more often.
- *Frequent payments* create financial discipline and keep the borrowers from falling behind. Making weekly payments is much easier than accumulating larger amounts for monthly payments. Weekly meetings are usually mandatory.
- *Potential future, larger loans* motivate borrowers to pay back their first loans. Graduating up the scale also helps members expand their microbusinesses.

Stability Through Savings

Barefoot banking frequently involves more than loans, just as formal commercial banking does. One additional activity common among microcredit groups is savings. Is it surprising that poor people are avid savers? Savings may take the form of a piglet raised to sell to pay for

Summary: A BILLION BOOTSTRAPS

next year's school fees, or coins accumulated one at a time in a tin box under the bed. Those savings are often the only safety net for the impoverished.

Savings account holders earn interest on their money. Many microcredit providers require small, regular savings deposits along with weekly loan payments. Such compulsory savings are more than collateral on outstanding loans: They help the poor accumulate useful sums of money for business expansion and family needs, such as a bed, a stove or school fees.

Banks Without Walls

Community banks function as banks without walls for the benefit of small groups of borrowers who may meet in a one-room school, someone's shanty home or literally under a tree. Tracking individual accounts is not that difficult, but the task becomes complicated when there are thousands of clients making tiny weekly payments, often less than a dollar at a time. All of this requires supervision by trained credit officers who meet regularly with the group. Typical microcredit workers monitor hundreds of accounts each. Then, at the head office, capable senior managers must maintain up-to-the-minute, accurate summary information to spot and address any problems.

Not many of these bankers for the poor are barefoot anymore, though many of them have nothing more than shoe leather to transport them to borrower meetings. ●

Moving the World

The first way to multiply the power of your money is to use it in an underdeveloped country. The poorer the community, the less money it takes to start or improve a microbusiness capable of supporting a family, and the less it costs to live there. Underdeveloped countries have informal economies where self-employed people face little government regulation or other profit barriers. A street vendor selling homemade tortillas does not require a business permit or a building.

There is no exact formula to determine the total dollar amount in loans it takes to move a family up the poverty ladder. Rather than getting lost in a forest of details, the following rule of thumb works well across a wide spectrum of countries and situations: Whether it is in one loan or a series of loans, the total amount of borrowed funds needed to help lift someone from poverty is roughly equal to the average annual income per capita of the borrower's country. Based on this rule, the total amount of loans would be as low as \$120 in parts of Africa and as high as \$4,460 in Russia.

On a cost basis, the most extraordinary opportunities for changing lives are in the world's poorest countries. With this lever alone, your money in a poor country can be 365 times as powerful as compared to using it in the United States.

The Loan Recycling Lever

Microloans, when properly made, have a typical repayment period of six months or less, and then the money recycles as a new loan. Over the span of a decade, up to 20 microbusinesses are started or strengthened with the amount of just one loan. Therefore, the power of money multiplies approximately 20 times through microcredit compared to one-time charity expenditures.

Multiply the lever of using money in an underdeveloped country (up to 365) by the lever of loan recycling (20), and the result is that you are able to exert as much as 7,300 times more power when you provide microloans in a poor country compared to donating to a humanitarian cause in a developed country. Additional levers can be applied for even larger outcomes.

Now, late-stage microcredit supporters can reap outlandishly high returns for low risk by taking advantage of three decades of investments and hard work by others. Microcredit is capital-starved because few people know about it and understand how and why it works. By providing some of this capital, you can help poor people advance their small businesses with sweat equity and bootstrap loans. With loans, not handouts, they can achieve economic stability and the dignity that stems from solving their own problems.

The financial levers available with microcredit are powerful, and you can move the world by using them. Other levers are the genius of microcredit methods, the dedication of field staff, and the tenacity of poor entrepreneurs. Although world poverty is powerful, these levers are even stronger. ●

Microcredit Plus

The pairing of lending with other services is called "Microcredit Plus," an excellent approach because poverty often involves more than lack of money. While some income-related problems such as hunger simply disappear as families move out of extreme poverty, other problems persist. This is where the "Plus" comes in.

Lending programs are an ideal context for delivering added services because the programs have established trust with the borrowers, opening them to new ideas. Since credit groups gather at regular intervals, it takes

Summary: A BILLION BOOTSTRAPS

little, if any, additional expenses to build extra services into those meetings. Health and literacy programs, legal information and even farming tips have all been delivered successfully alongside microcredit. Savings and insurance are among the most common additions to lending programs; they decrease the vulnerability of poor families to emergencies, disasters and unexpected expenses.

Strategic alliances with other organizations are another way microcredit groups add extra features to their lending. Habitat for Humanity partnered with Opportunity International to combat AIDS in sub-Saharan Africa. Through that cooperative arrangement, AIDS orphans worked on Habitat housing projects and learned valuable construction skills. Opportunity International clients also mentored and trained the young people so they were able to use microloans to start their own businesses. Microcredit providers have joined forces with various groups to provide childhood immunizations, malaria prevention, AIDS awareness and a wide array of other services. ●

Beyond Good Intentions

There are reliable ways to connect with microcredit while avoiding the pitfalls. Microcredit is not as simple as sending money and a half-page loan agreement to an entrepreneurial poor person in a faraway country. That may not be legal, and it certainly is not wise.

Giving options cluster under three broad categories. No matter what cause you wish to support, microcredit or anything else, there are only three ways you can channel your resources. Professional fundraisers describe each with the letter T: time, treasure and talent. These are the only items anyone can contribute. Another way to describe these options is that we can give:

- **Our financial resources** — money and credit
- **Our personal resources** — skills, relationships and influence
- **Our lives** — donating hours and possibly even years of our time

In many cases, giving involves a combination of all three. The first way most people participate in microcredit is by giving money. Donors have six options:

1. Give to Grass-roots Organizations. Finding and evaluating the best local providers entails a great deal of research and likely one or more trips to a developing country. You will also find banks unwilling to transfer money to countries that are on government restriction

lists. If you are willing to do the work required to legally surmount difficult barriers, you are positioned to have a wonderful experience witnessing how your contribution is changing lives in a specific place.

2. The MicroCredit Solutions Fund. Geneva Global Inc. brings business-grade due diligence to the analysis of projects in developing countries. Microcredit Plus projects provide loans while simultaneously correcting one or more of the ills aggravated by poverty.

3. Give to an International Organization. Most donors, large and small alike, make qualifying tax-deductible (according to U.S. tax code) contributions to an international microcredit nonprofit organization.

4. Give Your Skills as Well as Your Money. Dallas real estate developer Lucy Billingsley recruited other Dallas women to host breakfasts and coffees to raise money for microloans for women in the Mexican state of Chiapas. They connected with Alternative Solidaria, a local organization they met through its partner, the Grameen Foundation. Connect people who have the capacity to give with microcredit groups that are ready to grow.

5. Give Your Time Along With Everything Else. Find ways to affiliate with the microcredit organizations that can help you meet your goals. Find a place where you can connect with your skills and energy in addition to your donations.

6. Start a Microcredit Program. The learning curve can be steep, and unexpected challenges, such as civil war and hyperinflation, can add exotic complications rarely faced in ordinary business. It can be thrilling to overcome such obstacles. ●

A Thousand Battles, A Thousand Victories

The wealthiest 10 percent of the global population possess 54 percent of the income. The remaining 90 percent of people divide up the remaining 46 percent. Further analysis of poverty statistics shows that 40 percent of the world's entire population lives on less than \$2 per day. There are about 2.5 billion people in that group who struggle to survive on just 5 percent of the world's income. These are the people who desperately need microcredit to improve their circumstances. More than a billion of them have no access to clean drinking water. More than 800 million suffer from severe hunger and malnutrition. Every hour approximately 1,200 children within this group die from preventable diseases.

Summary: A BILLION BOOTSTRAPS

The University of Maryland's Program on International Policy Attitudes conducted a poll in 2001 that found most Americans believe that 24 percent of the federal budget goes to overseas development assistance. In reality, less than 1 percent of the annual U.S. government budget goes to humanitarian foreign aid.

Development Goals

In 2000, the United Nations launched one of its most widely acclaimed initiatives ever: The Millennium Development Goals, or MDG. All 191 U.N. member nations endorsed this plan to halve the number of the people in the world living on less than \$1 a day, halve the proportion of the population suffering from hunger compared to baseline statistics from 1990 and improve the lives of the world's poor in six additional ways. The aim is to reach these goals by 2015.

Everyone's intentions were and are good, but according to the *Millennium Development Goals Report 2006* published by the U.N., the results so far are not very impressive. Parts of Asia show a strong decline in poverty, but extreme poverty in Africa remains virtually unchanged, from 44.6 percent of the people living on less than \$1 per day in 1990 to 44 percent in the latest data. It would seem that, even when the world's nations unite to fight poverty, many of the weapons are blunt. Microcredit succeeds in places where other macro efforts fail. ●

The Best Due Diligence

Making microloans involves many complexities. Sometimes giving out loans directly is not a good idea. Although the concepts of microcredit apply globally, the specifics of how to provide microcredit change dramatically from country to country, and even village to village. It is important to understand a country's political and religious history, its past and current business practices and its cultural differences.

Microcredit organizations in Russia, which must contend with the Russian Mafia or corrupt local governments, face entirely different challenges from, for example, those in Rwanda where some loan officers can barely add or subtract.

Poverty has to be solved one family at a time. These families can eventually have a noticeable, positive effect on their communities. Microcredit has the power to influence entire social and political systems. The ripple effect of microcredit is far greater than experts have ever imagined — on both the borrowers and the lenders. ●

Tough Love Leads to Happy Endings

It is possible to view philanthropy in the same light as investing and to expect that through microcredit you can achieve even better results than with your financial investments. Use your business skills to further your giving goals, not just the goals of the charity organization. Unleash the full power of your donated dollars instead of blindly dispatching your money to a general fund that may accomplish very little. Instead of letting resources snooze inside a foundation or donor-advised fund, find great opportunities and put your contributions to work.

Donor Choices

Keep your mind engaged to make certain you are accomplishing what you intend. If you choose to make your donations with the mind-set of an investor, here are some of the choices you might make:

- Seek charities that offer the *best return* on your investments. Though you might favor a few local charities, the location of the headquarters and the people they serve should not be the primary consideration. Instead, look for an underserved market.
- Require that the returns on your charitable investments be *measurable* and the results reported in a meaningful fashion.
- Even after intense analysis, your *investment style* should guide your decisions. A successful investor has a plan and follows it.
- If a charity does not meet performance expectations, move your investment elsewhere or, in other words, *adjust your portfolio*.
- Pay *management fees commensurate with expected performance*. In charities, actual administrative and fundraising costs are too often 30 percent to 50 percent of the funds raised. As an investor, outside of a brief start-up period, you would find that intolerable.

The Next Step Is Yours

About the only limit to the growth of microcredit and the resulting triumph over poverty is the lack of funding for more microloans. How far this superb solution can reach rests to a large extent in the bank accounts, foundations and donor-advised funds of potential supporters. We have the ability to help billions of the world's poor bootstrap themselves out of poverty, not with charity, but with the partnership of microcredit. ●