Original Article

The make-buy decision in marketing financial services for poverty alleviation

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ABSTRACT In this article, we suggest how poverty reduction can be achieved through alleviation measures that enable the poor to satisfy their needs by focusing on the needs of others. Instead of a direct focus on the consumption needs of the poor, we suggest an indirect approach to satisfying these needs, by providing the poor with credit and consulting services for entrepreneurial businesses that focus on the needs of buyers. Loans to the poor who lack collateral are increasingly based on group lending techniques that rely on joint liability to secure repayment, which have come to be known as microfinance. We suggest that in addition to credit, financial services for the poor must include strategic advice and assistance to select markets, and make the products (goods and services) for sale in their output markets with the financial services bought in their input markets. Financial services for the poor must include not only money to invest in a business but also consulting services to help the business succeed. The provision of consulting services will also facilitate monitoring and enforcement, increasing loan repayment. Depending on poverty levels, the extent of bundling credit and consulting services will vary with one or more organizations emerging to meet the needs of different segments. We suggest that poverty alleviation is achieved by the poor focusing on the needs of others in their output market, and outsourcing financial services to one or more suppliers in their input markets.

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INTRODUCTION

The plight of the world's poor has drawn the attention of charities, non-governmental

organizations, governments and multilateral agencies. Poverty is a scourge that not only jeopardizes those who are poor but also deprives society of the contributions of a vast number of people, and produces inequities that cause strife in society. Despite recognition of the importance of its

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elimination, attempts to reduce poverty have fallen short of the goal of a world without poverty.¹ Increasingly, strategies to reduce poverty have turned to sustainable efforts like that of microfinance organizations, which attempt to alleviate poverty by using business models that stress entrepreneurship and repayment. In this article, we formalize analysis of business model approaches to poverty alleviation by examining how the needs of the poor can be met, by starting with the needs of their buyers in output market transactions to determine what to make and what to buy from suppliers in input market transactions. Suppliers of financial services that are essential inputs for the poor in turn have to determine what to make and buy, in order to ensure the success of the value-adding activities of the poor. Only if the poor succeed in meeting the needs of their buyers will they be able to repay the loans, allowing providers of financial services to once again provide these services, creating a virtuous cycle of poverty alleviation and reduction.

Poverty, from a marketing perspective can be simply defined as not being able to buy the basic necessities for sustaining life. According to the World Bank, 2.6 billion people, almost half the population of the world lived below the international poverty line on less than US\$2 a day, and the poorest 1.4 billion people, more than a quarter of the population of developing countries lived on less than \$1.25 a day in 2005.² Most definitions of poverty are based on income and consumption. In an attempt to comprehensively answer the question, 'What is poverty?' the World Bank states: 'Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom'.³ The World

Bank concludes that poverty is 'pronounced deprivation in well-being'.⁴ Sen suggests that well-being comes from a capability to function in society and lack of key capabilities gives rise to poverty.⁵

Poverty alleviation strategies would therefore focus on improving individual well-being by improving the capability of the poor to function in society. We distinguish between the consumption activities and the investment activities of the poor. The way out of poverty and improvements in the ability of the poor to satisfy consumption needs will be dependent on improving their capability to perform investment activities except in the case of the poorest, whose minimal consumption needs would have to be first met before any attempts to improve capabilities. The poor will satisfy their consumption needs by focusing not on their own needs but on the needs of others. By focusing on the needs of buyers in their output markets, they are able to satisfy their own needs, the essence of the marketing orientation, which stresses focusing on buyer needs, not seller needs.

The poverty alleviation strategies and the capabilities to be developed will differ for different segments of the poor and also different groups of buyers in the chosen output markets. The needs of buyers served by the poor will dictate the capabilities required to make the product to satisfy them. The capabilities that the poor lack will have to be obtained in buy transactions from suppliers in their input markets. One essential capability that the poor definitely lack as a consequence of being poor is the money required to make products. Loans from financial service organizations are a prerequisite for the poor to start and manage a business. The poor will also need advice and assistance to pick markets, choose products and determine other business strategies. These consulting services will have to be provided by either the financial service supplier or other specialists. Depending on whether credit and consulting services

are bundled together or separately delivered, the marketing of these services and the organizations in the supply chain will vary.

We examine how poverty alleviation can be achieved at least for some segments of the poor by enabling them to make products for others. The financial services required for the purpose are provided by self-sustaining organizations that demand repayment, and use innovative business strategies to provide these services to the poor. In addition to credit, we suggest that consulting services to help the poor develop and execute strategies for success must be provided either by the financial services organization or other suppliers, and this will increase the likelihood of repayment. We discuss (1) marketing to the poor in the next section, then (2) financial services for the poor, followed by (3) make-buy decisions for poverty alleviation, and finally (4) conclude with a summary of our suggestions.

MARKETING TO THE POOR

Marketing involves exchanges of value between sellers and buyers, and the poor have not been viewed as a lucrative marketing opportunity, especially by traditional profit-seeking businesses. In recent years, however, the desire for growth has prompted many commercial enterprises, including multinational corporations to look for the 'fortune at the bottom of the pyramid'.⁶ Multinational companies acting in their own self-interest, it has been suggested, can radically improve the lives of the poor at the bottom of the economic pyramid by stimulating commerce and development.⁷ For example, Unilever's Indian subsidiary, Hindustan Unilever used innovative strategies to introduce detergent, iodized salt and candy of high quality at low prices and in small quantities for the rural poor.⁷ The candy introduced by the company was made from real sugar and fruit and was priced at a penny per serving, and in 6 months became the fastest growing category in the company's portfolio with

a potential for \$200 million in revenues. In Brazil, despite the number of bank accounts tripling from 42 million in 1997 to 126 million in 2008, 50 million people still do not have bank accounts, prompting the largest retail bank 'Banco Bradesco' to open branches to serve the poor in the slums of big cities, and even a floating bank branch on a riverboat on the Amazon river system to provide banking services to people who do not have much money.⁸

Companies adopting a corporate social responsibility (CSR) perspective may also seek to serve the poor. An analysis of the CSR strategies of multinational corporations regarded as pioneers, however, indicates, 'that they are overall not (yet) very outspoken on poverty alleviation'.⁹ But a sectoral examination indicates that the CSR efforts of pharmaceutical companies such as GlaxoSmithKline and Bristol-Myers focus on corporate philanthropy; automobile companies such as Fiat and Volkswagen focus on the environment; and food processing companies such as Unilever, Nestle and Danone focus on poverty alleviation.⁹ A study of CSR as a tool to fight poverty in Mauritius found that only 11 per cent of the CSR funds were devoted to poverty alleviation.¹⁰

The failure of markets to serve the poor led to the emergence of social welfare organizations with not-for-profit motives. Charities, non-governmental organizations and the government have sought to aid the poor through social marketing that focuses on social objectives rather than profit. These efforts attempt to address the consumption needs of the poor for food, clothing, shelter, health care and education. Such transactions may be regarded as final transactions in consumer markets, because the poor do not use these products to add value and engage in subsequent transactions in an output market.¹¹ The marketing of products for consumption by the poor in final transactions helps to ameliorate the deleterious effects of poverty at least in the

short term, but does not alleviate poverty in the long term. It does, however, provide the prerequisites for poverty alleviation by enabling a shift in focus to intermediate transactions, where the needs of the poor for products in their input markets are derived from the products they make to satisfy buyers in their output markets.

We suggest that poverty alleviation can be achieved by focusing less on final transactions for the consumption needs of the poor, and more on intermediate transactions in which the poor act entrepreneurially, add value to the products they buy in input markets, make products and sell these products in subsequent output market transactions. Instead of focusing on their own needs as consumers, the poor must focus on the needs of others and engage in making products for them. By making products for buyers in their output markets and selling them in output market transactions, the poor gain the ability to satisfy their own consumption needs. As Lao Tzu put it: 'Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime'. However, we should note that the poor must be first fed and have their hunger sated, especially in the case of the extremely poor at the base of the poverty pyramid, to permit them to focus on the needs of others and make products for buyers in output markets. In a curious case, fishermen in the Philippines who could no longer catch fish in their local waters because of pollution were hungry and unable to pay for food but the national poverty policy emphasized education in keeping with 'teaching a man to fish', though their priority need was for food to provide relief from hunger.¹² Amelioration must precede alleviation efforts, particularly for the poorest who do not even have money to buy food.

Final and intermediate transactions with the poor as one link in a value-adding chain are schematically depicted in Figures 1 and 2, respectively. Figure 1 shows

either not-for-profit or profit-making organizations as suppliers of products to meet the consumption needs of the poor in an input market transaction. The transaction is final because the poor do not engage in a subsequent transaction in an output market. On the other hand, in Figure 2, the poor use the products bought in the input market to add value, and make the product sold to buyers in a subsequent output market transaction. This output market transaction may in turn be a final transaction with a consumer, after which there are no further output market transactions or it may be intermediate with the buyer adding value, and engaging in an exchange of values in another output market transaction.

We provide two examples of intermediate transactions for poverty alleviation, one fairly simple and the other relatively complex. The BRANDAID Project attempts to 'turn poverty into prosperity through social entrepreneurship' by identifying artisan communities in Haiti, buying a collection of their artwork, and then using 'modern marketing, photography, filmmaking, and e-commerce' to sell the artwork.¹³ The profits are shared with 25 per cent going to the artisans and 10 per cent to a not-for-profit arm, the BRANDAID Foundation for skills development, community improvement projects and microfinance loans to artisans.¹⁴ The transaction between BRANDAID Foundation and the poor, as well as the purchase of artwork from the poor by the BRANDAID Project are intermediate transactions. The sale of artwork using the BRANDAID Project e-commerce site is a final transaction.

Honey Care Africa helps poor farmers in Kenya become beekeepers and make high quality honey.^{15,16} Honey Care manufactures and sells the equipment required by the poor farmers to start a beekeeping enterprise; a development partner provides the microcredit to the farmers for purchasing the equipment after the farmers receive intensive

Figure 1: Final transaction for consumption needs of poor.

Figure 2: Intermediate transaction for investment needs of poor.

training; and Honey Care purchases the honey produced by the farmers, guaranteeing them a steady income and providing Honey Care with an assured supply of high quality honey. Honey Care deducts a percentage of the farmers' earnings and uses it to repay their loans. Honey Care packages and sells the honey to distributors who sell to retailers for sale to consumers. The sale to consumers is final and all transactions preceding the sale to consumers are intermediate transactions.

FINANCIAL SERVICES FOR THE POOR

Market imperfections and lack of access to financial services keep the poor mired in

poverty and are a major barrier to poverty alleviation. Mainstream financial organizations like conventional banks see the poor as risky clientele because of information asymmetries and transaction costs. The poor do not have a history of credit and repayment, proof of identity and credit ratings, which increases adverse selection and moral hazard risks, and making small loans to a large number of borrowers increases transaction costs. The principal deterrent to commercial lenders has been the inability of the poor to provide collateral to make up for the additional risk. For example, commercial banks in Ghana serve only middle- and upper-income households, because insistence on collateral

as a loan requirement disqualifies the poor.¹⁷ Access to financial services such as deposits, credit, payments and insurance for the poor may be prevented by physical access barriers, lack of proper documentation and minimum account balance requirements.¹⁸ As a consequence, the poor have had little choice but to resort to less palatable alternatives like moneylenders who charge usurious interest rates and suppliers who charge extortionate prices, exacerbating their already perilous condition.

The needs of the poor for financial services and the failure of the market to satisfy these needs has led government and non-governmental organizations such as charities and social welfare agencies to at least satisfy consumption needs by providing donations. Although these donations serve a useful purpose in ameliorating the most pernicious aspects of poverty such as hunger and illness, they do not enable the poor to extricate themselves from the poverty trap.

In the absence of traditional providers of financial services providing either existing products or developing new products to satisfy the needs of the poor, new organizations capable of implementing innovative strategies must emerge. Social business models that value not only financial profits but also social benefits represent a possible solution. Social businesses have features of both for-profit and not-for-profit organizations. Like for-profit businesses, a social business must be self-sustaining and cover the full cost of its operations and its owners are entitled to recover their invested money, and like a not-for-profit organization it must achieve social objectives such as poverty alleviation.¹⁹ Innovation in social business models is similar to conventional business models in challenging conventional thinking, finding complementary partners and undertaking continuous experimentation, but differs from conventional business models in specifying social profit objectives clearly and recruiting shareholders desiring social profit.¹⁹

A key innovation in providing financial services to the poor is the emergence and spread around the world of microfinance organizations, which lend to groups and use joint liability and peer pressure to achieve 'the apparent miracle of giving solvency to a community composed almost entirely of insolvent individuals'.²⁰ The pioneer and best-known microfinance organization, Grameen Bank in Bangladesh was founded in 1976 by Muhammad Yunus, the 2006 Nobel Peace Prize winner. In the words of Yunus: 'To argue that banking cannot be done with the poor because they do not have collateral is the same as arguing that men cannot fly because they do not have wings'.²⁰ Grameen loans are given exclusively to the poor (defined as individuals owning less than a half acre of land) who form self-selected groups of five members from the same village and are jointly liable for the loan.^{20,21} After forming the group, members receive training, start weekly meetings and make weekly savings deposits. Several weeks later, two members of the group get a loan, and based on their repayment performance two other members get a loan, and finally the chairperson of the group gets a loan. The loans are small and repaid in weekly installments over a year. If any member of the group defaults, all are ineligible for future loans. The benefits of lending to the group are twofold: peer pressure results in better repayment and the members function as a support group for each other. Grameen Bank intensively monitors borrowers who are required to attend weekly meetings, be punctual, recite a pledge, follow seating plans and make regular and timely payments. Each borrower owns one share of the bank and the borrowers elect 9 of 12 board members. Grameen Bank has helped 68 per cent of its borrowers lift their families out of poverty, and now gives loans to over 7.5 million poor people, 97 per cent of whom are women.¹⁹

A critical element of the innovative strategies used by microfinance organizations

to successfully provide credit to the poor is joint liability for the loans provided to the group. Joint liability, by using local information and social capital, allows the microfinance organizations to avoid (1) adverse selection problems or problems in ascertaining the risk in lending to a potential borrower; (2) moral hazard problems in ensuring proper use of the loan to enable repayment; (3) monitoring problems in determining the performance of the project supported by the loan in case the borrower declares an inability to pay; and (4) enforcement problems to force reluctant borrowers to pay.²⁰ However, in the absence of social capital, problems can arise. For instance, Grameen Bank determined the optimal group size to be five members through trial and error, but in Nepal trust was less in groups that had more than 20 members; in Ghana where groups ranged in size from 10 to 100 members, supervision and collection were serious problems; and in Burkina Faso groups seem to have been formed by program officials and included members who had never met one another and were confused about who bore liability for bad loans.²⁰ In the Philippines and in Malaysia, programs did not adhere to the principles of the Grameen model, and only after the repayment rate dropped precipitously did they switch to strict adherence and experience success.²¹ In the United States, lack of success has been attributed to weak social capital among the poor in urban areas that makes it difficult for groups to form, and Chicago's Full Circle Fund takes this into consideration, adheres to Grameen principles and allows groups to take 6–8 months to form.^{20,21}

Although it has been suggested that the poor constitute a large and substantial market,⁶ aggregating the poor into one market implicitly includes people at different poverty levels with different capabilities and needs. The bottom of the economic pyramid is not homogeneous and we must distinguish between the extremely poor, the poor and

the marginal poor. Even if individuals are currently above the poverty line, they may be one natural disaster or illness away from sinking into poverty. Income insecurity may make them highly vulnerable. Evidence from a study in Bangladesh that investigated whether three microfinance organizations including Grameen Bank reach the poor, defined as households with low consumption levels, and the vulnerable, defined as households unable to smooth consumption in the face of idiosyncratic income fluctuations, indicates that the microfinance organizations are definitely successful in reaching the poor but less successful in reaching the vulnerable.²² The poor themselves constitute a poverty pyramid, and poverty alleviation strategies have to be tailored to fit the capabilities and needs of different segments of the poor.

Microfinance organizations favor investment over consumption loans. But as we have noted, for the poorest at the base of the poverty pyramid, amelioration efforts like hunger relief may have to precede alleviation efforts. For instance, when Grameen Bank introduced housing loans, the Central Bank argued that housing loans were consumption loans that did not produce income but Grameen Bank countered that for the poor the house was like a factory used as a place to add value.²¹ We suggest that the route to poverty alleviation requires a shift in focus from the consumption needs of the poor in input markets to the needs of others in the output market of the poor borrowers. For the poor to successfully start and operate a business, credit must be supplemented with advice and assistance in formulating strategies designed to serve buyers in the poor borrower's output market. The poor will vary in their entrepreneurial abilities but even the most entrepreneurially gifted among them can benefit from such strategic advice. In fact, most businesses large and small hire employees with such training or use consultants to choose markets, develop

products and make changes in their strategy. In the absence of advice on the markets to serve and the products to make for buyers in their output markets, the entrepreneurial efforts of the poor are less likely to succeed. On the other hand, the provision of consulting services by financial service providers that bundle both credit and consulting services or rely on specialist organizations in the value-adding chain to provide the consulting services enhances borrowers' chances of success and repayment. The extent to which credit is bundled with consulting services may be expected to vary for different poverty segments. The consulting services will likely facilitate monitoring and repayment of loans, and also help build stronger relationships between financial service providers and borrowers thereby increasing social capital.

THE MAKE-BUY DECISION AND POVERTY ALLEVIATION

By its very nature, poverty indicates that the poor are unable to meet their basic needs for sustenance by engaging in market exchanges. In the short term, ameliorative measures can help meet these consumption needs, but long-term solutions require alleviation programs aimed at reducing poverty. We suggest that a viable long-term solution for poverty alleviation and reduction is to give primacy not to the demand for products required to satisfy the consumption needs of the poor, but to the products to satisfy their investment needs as self-employed entrepreneurs operating businesses. The consumption needs of the poor are met not directly by focusing on these needs, as many organizations disturbed by the condition of the poor might attempt or amelioration strategies, but indirectly by enabling them to meet their own needs in final transactions by meeting the needs of others in intermediate transactions or alleviation strategies. By focusing on the needs of buyers in their output markets, poor entrepreneurs will gain the ability to buy

products in their input markets not only to make the products to satisfy the needs of buyers in their output markets, but also to buy the products for their own sustenance.

The demand for products that they buy to meet their own needs is quite different from the demand for products that they buy to make the products sold to meet the needs of others in subsequent transactions. Only the needs of the poor themselves matter in final transactions, and sellers need to only focus on these needs in developing products for consumption by the poor. For example, most strategies pursued by multinational companies to serve the poor, attempt to modify existing products or develop new products that meet the consumption needs of the poor.⁶ But in intermediate transactions, the needs of the poor entrepreneur are derived from the needs of their buyers, and sellers attempting to satisfy these needs must take this derived nature of demand into account in developing the products required by the poor, in order to successfully start and operate businesses.

One input that the poor definitely need to buy is credit. The availability of loans is imperative for entrepreneurial ventures of the poor, but the product will differ from that provided to start-ups by mainstream financial organizations such as commercial banks and venture capitalists. A major reason for this difference, as we have noted, is the inability of such suppliers to assess the credit-worthiness of the poor and the inability of the poor to provide collateral. As a consequence, social businesses that supplement profit objectives with social objectives and use joint liability to ensure repayment develop the financial products required by poor entrepreneurs. But for the poor to develop self-sustaining profitable businesses, the poor entrepreneur must develop strategies that successfully meet the needs of buyers. These strategies like that of any business whether small or large must focus on the needs of buyers, not their own needs. The entrepreneur has to select

markets, plan products, and make pricing, promotion and distribution decisions that will help ensure the success of the business. Even if the poor are gifted entrepreneurs, thoughtful and 'alert to opportunities',²³ they are unlikely to have the capabilities required to formulate these strategies. A study of microfinance clients in Sri Lanka finds that the poor tend to select low-value activities with low growth prospects and 'In semi-urban areas poverty impacts could be strengthened by supplementing loans with nonfinancial interventions encouraging poor clients to select higher-value occupations'.²⁴ The study suggests that informed selection decisions regarding unfamiliar occupations requires 'the integration of vocational training with information on markets, inputs, and technologies'.²⁴ And an examination of rural poverty in Ecuador makes two recommendations: first, rural families need credit to buy agricultural inputs and animals; and second, training is necessary for maximizing the utility of those resources.²⁵ In order to improve the likelihood of success for entrepreneurial ventures started by the poor and repayment of loans provided to these poor entrepreneurs, financial service providers must ensure that advice and assistance regarding strategies is also made available to poor entrepreneurs.

The financial service providers may themselves provide these consulting services or they may contract with other organizations to provide them. The poor would buy credit and consulting services, and one or more organizations could make either or both for them. The financial service provider could bundle both credit and consulting services into one financial service product or they could specialize in credit and another organization could specialize in providing the consulting services. Bundling credit and consulting services into one financial services product would require personnel able to provide each of these services. The success of an Indonesian microfinance organization, Bank Rakyat

Indonesia has been attributed in part to the training provided to its own staff to evaluate, monitor and screen the small projects of clients.²⁶ Organizations that specialize in amelioration of consumption needs of the poor may also provide referrals to financial service organizations, and could play a role in helping the poor develop strategies for their output market. Organizations that provide these services are engaged in social entrepreneurship defined as 'activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner',²⁷ because they develop new and innovative solutions to serve the poor who have been neglected by mainstream organizations. Marketing these products to poor entrepreneurs who do not attract the attention of mainstream commercial organizations requires a social marketing orientation.²⁸

In the value-adding chain for poverty alleviation, the poor focus on the needs of buyers in the output market and make the product that satisfies these needs by buying credit and consulting services from one or more specialist organizations that are its suppliers in input markets. The suppliers of credit and consulting services to the poor must themselves decide what to make, and what to buy. Suppliers to poor entrepreneurs of credit and consulting services bundled together are social businesses by virtue of their objectives including financial, as well as social criteria. But if credit and consulting services are unbundled, the credit provider is a social business, but the consulting services provider may or may not be a social business. For example, in Uganda, the local chapter of the Council for Economic Empowerment for Women of Africa, a social business, provides poor entrepreneurs with information on market prices, advisory and trade support services, as well as skills for effective career development and business management in partnership with rural

community telecenters.²⁹ In India, a for-profit organization, ITC has made significant investments to establish Internet portals known as e-Choupals, which provide information on prices and farming techniques to poor farmers in rural areas and enables them to buy inputs at a lower price from ITC, as well as sell outputs at a higher price to ITC.³⁰ For the extremely poor at the base of the pyramid, bundling is probably necessary, but as the business grows it may become possible to unbundle credit from consulting services and eventually both products could be separately provided by commercial organizations. As we move up the poverty pyramid to the marginal poor and the non-poor who are on the fringes of poverty or have just climbed out of poverty, credit and consulting services may be provided much the way it is for wealthier borrowers by independent specialist organizations like conventional banks and consultants or by their own employees.

The value-adding chain for Grameen Bank, and the poor who buy financial services from it to make products for their buyers is shown in Figure 3. Initially, Grameen Bank adds value by providing credit and training the buyers in weekly meetings with a Grameen representative participating. Much of the training is to develop cohesion in the group, build trust and ensure repayment. The group acts as a support group for each member and is a source of informal advice, but there is no formal mechanism to help formulate strategies to ensure entrepreneurial success. Grameen Bank has now formed partnerships with Telenor to provide wireless phone services, Danone to provide dairy products and Veolia to provide water services.¹⁹ The partners do part of the value adding required to make the products that the poor entrepreneurs buy in their input markets to make the products that they sell in their output markets. As a result of these partnerships, the 'Grameen ladies', local entrepreneurs responsible for collecting

interest payments on loans provided by Grameen branches have additional products to sell: they buy phones and air time in bulk with loans from Grameen Bank and sell minutes to villagers when they need to make phone calls; and they buy yogurt with credit from Grameen Bank and sell door-to-door to meet the basic nutritional needs of poor buyers. Similarly, water is distributed to remote locations in rickshaws driven by 'Grameen boys'. Telenor, Grameen Bank's partner in wireless phone service is a for-profit Norwegian business, but Danone established a separate social business unit to become Grameen's dairy products partner.

Organizations change their make-buy decisions over time. An interesting example is the evolution of the village banking organization, Fundacion Integral Campesina (FINCA) that provides credit to the rural poor in Costa Rica. Initially, FINCA Costa Rica was modeled on FINCA International in Bolivia but soon modified its methods to suit its target market of rural poor (only 25 per cent of whom were women unlike in Bolivia, where the target market was urban women) and in addition to credit started providing financial training, technical assistance, and motivational discussions of leadership and entrepreneurship.³¹ After the credit program was judged to be unsustainable and not meet the needs of the rural poor, FINCA switched to a Community Credit Enterprise (CCE) model that allows members to buy stock, uses the capital to provide credit, and earns and retains profits. FINCA provides a 22 module training session for CCE members on forming and strengthening a CCE, and teaches financial skills to the young. Subsequently, to provide external funding to the CCEs, FINCA created a new company, Empresa para el Desarrollo S.A. (EDESA) that specializes in custom financial services for the CCEs, spun off its microfinance operations to EDESA, and became a village banking development organization. FINCA

Figure 3: Value-adding chain for Grameen Bank and its partners.

Figure 4: Value-adding chain for poverty alleviation in Costa Rica.

continues to provide training and consulting services to CCEs, but relies on EDESA for the loans that it distributes to CCEs. The value-adding chain in Figure 4 illustrates the division of labor and the emergence of specialist organizations to make the financial services required for poverty alleviation in rural Costa Rica.

CONCLUSION

The fight against poverty must focus not only on amelioration by meeting urgent needs for survival of the poor in the short term, but also alleviation by enabling the poor to become self-sustaining and meet

their own needs in the long term, resulting in the eventual reduction and elimination of poverty. The proposed alleviation strategy focuses not on the needs of the poor in final transactions but on their needs in intermediate transactions. In final transactions, the poor use the products bought to satisfy their consumption needs. But in intermediate transactions, the poor use the products bought to make products for their buyers in subsequent transactions. By focusing on the needs of their buyers in output markets, the poor acquire the capability to satisfy their own consumption needs in input markets.

In order to make and sell products to buyers in output market transactions, the poor buy products in input market transactions. The capabilities that the poor lack will have to be bought from suppliers in their input markets. One essential capability that the poor need to buy is credit and social businesses with financial, as well as social objectives are required to provide them. In addition, the poor lack the capability to develop the strategies required to serve their buyers and will have to buy the consulting services for their entrepreneurial ventures from suppliers. The credit and consulting services may be bundled together or provided separately by specialist organizations for different segments of the poor. Partnerships among social and commercial businesses may emerge to make the products bought by the poor to make the products for their buyers. Over time these value-adding chains will evolve to resemble those that serve the non-poor. Alleviation by providing the credit and consulting services in input markets to make the products for buyers in output markets enables the poor to lift themselves out of poverty.

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