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Fighting Poverty With \$2-a-Day Jobs

By DANIEL GROSS

JACQUELINE NOVOGRATZ, a veteran of the Rockefeller Foundation and a former consultant to the [World Bank](#), talks enthusiastically about the development of a company in Africa where some 2,000 women earn, on average, \$1.80 a day producing antimalarial bed netting. With the assistance of a \$350,000 loan from an American investor, the business started making the nets nearly three years ago and is likely to add 1,000 more jobs within the next year.

“They’re in the process of building a real company town there,” Ms. Novogratz said.

Ms. Novogratz is not an outsourcing executive at a multinational company. Rather, she is the chief executive of the Acumen Fund, a philanthropic start-up based in New York that uses donations to make equity investments and loans in both for-profit and nonprofit companies in impoverished countries. One of the stars of her small portfolio is the bed-netting maker, A to Z Manufacturing, a family-owned company in Tanzania — a country where 80 percent of the population makes less than \$2 a day.

Social activists have typically railed against large multinationals that have sought the lowest-priced labor they can find in developing countries. But for some members of a new generation of philanthropists, schooled in the techniques of venture capital and Wall Street, fighting poverty effectively relies on the creation of low-wage factories, as well as the establishment of lending institutions that charge rates that many Americans would deem usurious. Rather than work through global aid bureaucracies, they believe that affluent Westerners should become more directly involved in the developing world’s credit and labor systems, and invest in and support businesses that are self-sustaining and replicable.

“To put it in the baldest possible terms, the more sweatshops the better,” said William Easterly, professor of economics at [New York University](#) and author of “The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good.” Professor Easterly is not advocating the deliberate creation of workplaces with miserable conditions. “As you increase the number of factories demanding labor, wages will be driven up,” he said, and eventually such factories will not be sweatshops.

Ms. Novogratz says it can be difficult to tell well-off, philanthropy-minded Westerners that what Africa really needs is more \$2-a-day jobs. But when they understand the alternatives, she said, such concerns tend to melt away. Before they found work at the netting factory in Tanzania, for example, many of the women were street vendors or domestic workers and earned less than \$1 a day. A to Z’s wages place the women in Tanzania’s top quartile of earners, Ms. Novogratz said.

Similar issues hold for the granting of very small loans, often called microlending. “Microfinance boosts the very best parts of capitalism, because it boosts people’s ability to make their own choices and to work their way out of poverty,” said Roy Jacobowitz, senior vice president for resource development and communications at Acción International, a Boston-based group that has established and supported the creation of a network of microlending banks, mostly in Latin America.

The banks, many of which are for-profit companies, lend cash to poor people at annual rates that are higher than 20 percent. But in the markets where Acción’s affiliates operate, Mr. Jacobowitz said, borrowers have few options except for money lenders who charge 10 to 20 percent interest per day.

Many of the new venture philanthropists do not simply accept systems as they are. Abraham M. George, who immigrated to the United States from India in the late 1960’s and built a successful software company, started the George Foundation in 1995 to fight poverty in India. Among the foundation’s projects is a commercial banana farm, which employs largely unskilled women from untouchable castes in the rural area near Bangalore, one of India’s showpiece technology centers.

Mr. George set wages on the farm at about \$40 a month, about what the Indian government says is the minimum needed to support a family of four. But he also provides free medical care and sets aside a portion of the farm’s profits to allow the women to acquire their own plots of land. “The total of these benefits is probably three or four times the going wage income they would receive elsewhere.” Mr. George said.

The advocates of venture philanthropy note that a long time ago, the United States was a nation of factory-based company towns, urban sweatshops and lack of access to capital markets.

“The democratization of access to financial services has been an enormous input into the creation of wealth here,” said Mr. Jacobowitz of Acción. “We’re trying to boost and accelerate that process in the emerging markets.”

Indeed, the best thing venture philanthropy can do is to create competition for the labor and business of the poor. In 1992, Acción backed the creation of Banco Sol, a for-profit microlender in Bolivia. Then Acción advised bank regulators on how to make it easier for other private finance companies to enter the microlending market. Today, Mr. Jacobowitz says, six regulated finance companies compete for the business of the poor in Bolivia, providing everything from housing loans to consumer credit. (The average loan at Banco Sol is about \$2,100.)

Thanks to the fierce competition, interest rates paid by poor Bolivians have fallen to 22 percent from 80 percent in the 1980’s.

Some experts are not fully convinced that small-scale private-sector efforts can make a significant difference. “When you look at the extent to which microfinance reaches people, it’s a small drop compared to what is needed,” said Anjini Kochar, senior research scholar and coordinator of the India Program at the Stanford Center for International Development.

But there is a great deal of ferment in the field, driven by established institutions like Acción and by new ones like the Acumen Fund and the George Foundation. “The sort of top-down comprehensive attempt to fix everything in society has been a dismal failure as implemented by the big bureaucracies like the World Bank,” Professor Easterly said. “And I think it’s time to start thinking much more about bottom-up approaches that try to give new opportunities.”

Daniel Gross writes the “Moneybox” column for Slate.com.

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