

## HELPING THE WORLD'S POOREST ENTREPRENEURS

Feliza Aticon and Margarita Cortez's chicharron (fried pork) street vending business in El Alto, Bolivia is a booming success, made possible by their newfound ability to purchase the required ingredients and space totaling \$600. For a modest sum by western standards, Tunisia's Fatima bought two salon chairs that has helped substantially increase her beauty shop income. After her husband died, Marie-Claire Ayurwanda decided to start a business; with a \$40 initial loan she was able to open the now-popular Isimbi Restaurant in Setwara, Rwanda, and with a second micro-loan she purchased a cell phone, use of which she sells to other villagers as part of a Village Phone program—the profits from both help support her four children, including their school fees.<sup>1</sup>

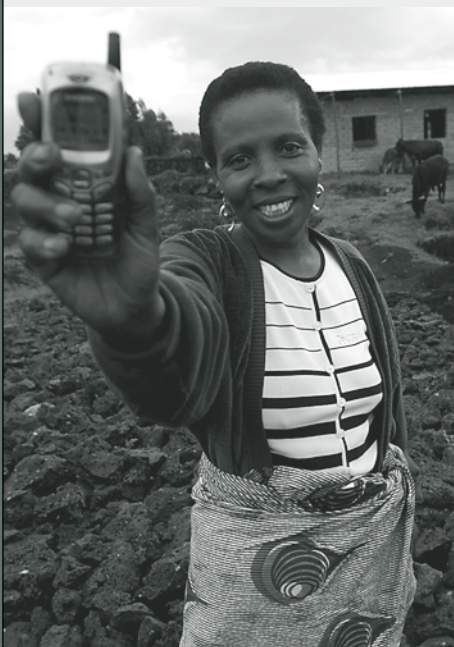


Photo: Tamara Plush for Grameen Foundation

Poverty is not inescapable. But if we're serious about solving the poverty problem, we must first understand its true extent and dynamics. While Americans give generously to charity (\$306.39 billion in 2007<sup>2</sup>) both home and abroad, not as much goes to the world's absolute poorest as you might think. "Less than one-third of all charitable donations by individuals are meant to help the economically disadvantaged, and wealthy donors direct a smaller share of their donations to the poor than other Americans," says Aaron Dorfman, Executive Director of the National Committee for Responsive Philanthropy.

However, there is new hope for the world's most economically disadvantaged citizens: microfinance loans. A report released by Deutsche Bank stated that such loans rose from an estimated \$4 billion in 2001 to \$25 billion in 2006.<sup>3</sup> Foreign funding of microfinance institutions is expected to continue to rise steadily in the coming years.

### International Loan Landscape

There is great need for credit in the developing world. Crippling poverty exists in Latin America, Africa, Asia, and the Middle East, but solutions can also be found in these regions. Pictures of malnourished children with swollen bellies or emaciated adults in tattered clothing have resulted in "development pornography," a term coined by development workers. While such pictures may bring a distant famine to life for a Western audience, they also dehumanize and debase their subjects, the intended aid recipients. Heartrending images can succeed in bringing in needed donations, but they do not address the multi-faceted confluence of issues that created the circumstances for the poverty, malnutrition, and unrest portrayed.

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<sup>1</sup> Story and pictures courtesy of Grameen Foundation USA

<sup>2</sup> *Giving USA 2008*, Giving USA Foundation, The Center on Philanthropy at Indiana University, 2008.

<sup>3</sup> Deutsche Bank, press release, *Deutsche Bank announces key findings in microfinance study*, December 19, 2007, www.db.com

## YEAR-END DEADLINES FOR DONATIONS AND GRANTS

Please make note of the following important deadlines for year-end contributions to your Charitable Gift Account that could affect your 2008 taxes. Our staff will be working through December 31st to process your contributions, but we strongly suggest that you follow these guidelines to help ensure timely processing by year-end.

TYPE OF CONTRIBUTIONS	DEADLINE FOR 2008 TAX DEDUCTION
<b>Transfers from a Schwab Brokerage Account</b>	Requests must be received by 5 p.m. PST on <b>December 30</b>
<b>Stock Transfers from a non-Schwab financial institution that you initiate</b>	Stock must be received by us by <b>December 29</b> , subject to processing time of the other institution <i>Note: If you request us to initiate, request must be made by November 14</i>
<b>Mutual Fund Transfers from a non-Schwab financial institution</b>	<b>The Fund must initiate mutual fund transfers</b> , which must be requested by <b>November 14</b> , and shares must be received by <b>December 29</b>
<b>Wire Transfers from a non-Schwab financial institution</b>	Wire must be received by us by <b>December 31</b> , subject to processing time of the other institution <i>Note: Wire transfers cannot be initiated by Schwab Charitable Fund</i>
<b>Checks</b>	Must be postmarked by <b>December 31</b>
<b>Security Certificates</b>	Must be sent by registered mail or delivery service by <b>December 31</b>
<b>Restricted Stock</b>	Must be requested by <b>November 14</b> <i>Note: Removal of restrictions vary and may take six weeks.</i>

Grants made from your Charitable Gift Account are not a taxable event to you, the donor. However, if you do want a grant to be made by December 31, please submit your grant recommendation by **Friday, December 12**, and we will make every effort to process the grant by year-end (subject to grant recipient responsiveness).

To make a contribution to or grant from your Charitable Gift Account, please login to the secure Donor Center as you normally would, or use the *Contribute to your Charitable Gift Account* form available at [www.schwabcharitable.org/forms](http://www.schwabcharitable.org/forms).

## HELPING THE WORLD'S POOREST ENTREPRENEURS

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Many impoverished people would gladly take a hand up rather than a hand out. They know what it will take to work their way out of poverty better than an aid agency or their own government. The assistance offered by a microfinance institution can present that eagerly awaited opportunity at the individual level, addressing the needs of human beings rather than reducing a country or continent to a caricature of suffering in need of rescue.

### The Power of Microfinance

Microfinance institutions make small loans to the world's poorest entrepreneurs to start, maintain, or expand small businesses. A micro-loan of as little as \$50 is enough for people in some developing countries to establish or improve their own businesses and escape from the vicious cycle of poverty. In many countries, small groups of entrepreneurs cross-guarantee one another's loans. Intense cultural peer pressure takes the place of collateral, which is frequently not an option for the destitute, in ensuring loan repayment. Short terms and frequent payments create financial discipline and keep borrowers from growing complacent. Weekly meetings of borrowers and a local loan officer offer opportunities to share best practices and participate in other programs provided by the lender. If loans are repaid in full and on time, the borrower often becomes eligible for an even larger loan, which can be used to further expand businesses, including hiring additional employees from the community – thus raising even more people out of poverty. The next generation also stands to gain significantly. Improvements in a family's financial health increase the chances that the children will attend school, and therefore, vastly improve their future life options.

Microfinance institutions emerged in their modern form in the 1970s; pioneers of the field decided to take a chance on providing loans to poor people traditionally considered unlikely to pay back. Although the industry's



Photo: Courtesy of Grameen Foundation

founders have since received worldwide recognition for their success and continued work, the initial decision to establish this branch of banking came with considerable perceived risk of default and corruption.

The 2006 Nobel Peace Prize went to Grameen Bank founder and economist Muhammad Yunus for his microfinance work. Small loans to poor individuals have proven a sustainable solution to poverty, and the Grameen model of locally designed and locally run branches has been replicated by many other microfinance institutions. Microfinance has offered an alternative to traditional charity. Money, as loans, replaces money spent on shipments of foods and clothing. Microfinance institutions offer sustainable approaches addressing problems from the ground up, as part of a larger trend of donors seeking to build sustainable solutions rather than short-term stopgaps. “Working with our partner organizations in the field, Grameen Foundation has helped hundreds of thousands of poor families around the world access loans—and a life-changing foothold in the economic mainstream. Everyday, we see how these valuable financial services are allowing people to break the generational cycle of

poverty and make positive contributions to their communities and our globalizing world,” said Alex Counts, President and CEO, Grameen Foundation.

Microfinance offers opportunities for client self-improvement that extend beyond the money it lends. Many organizations have begun to couple the weekly repayment meetings with services ranging from education and legal advice to health and farming tips – a practice called “microfinance plus.” Groups may offer optional training in business skills, such as bookkeeping and inventory control, or industry specific skills, as for textile workers or mechanics. Some providers are also augmenting their loans with expanded financial services, including insurance and savings opportunities, and social services, like family planning, child development and vaccine inoculations.

Microfinance works best in developing countries because it addresses head-on the lack of financial infrastructure. In a society where every economic transaction is completed in cash and the only loan opportunities are provided by illicit and unregulated people, a loan of a seemingly trivial amount from a trustworthy source can be a godsend. Of course, success in eradicating poverty

should not be taken for granted. Methods for measuring and monitoring the accomplishments of borrowers must be implemented and maintained. The Grameen Foundation has developed and promoted one such tool: the Progress Out of Poverty Index (PPI).

### Debates Surrounding Microfinance

There are at least two fundamentally different philosophies in the microfinance sector: for-profit and nonprofit. The initial success of charities in the industry has drawn the attention of commercial banks. The entry of traditional financial institutions into the field offers many opportunities, but it has also sparked a debate on whether the provision of financial services to the poorest of the poor may be corrupted by the profit motive. Those who support the commercialization of microfinance argue that only by making the loans profitable to the lender can they tap into the capital markets that will allow them to meet world-wide demand. They also suggest charitable dollars distort the market by underselling commercial organizations and propping up unsustainable programs. Those who support a nonprofit model worry that a profit model will cause mission drift, leaving the poorest poor unbanked while the less poor are targeted for their potential to pay back expensive credit. As the debate continues, the overwhelming demand allows for multiple approaches: profitable, sustainable, and charity-supported.

Interest rates have, by extension, often generated controversy. There is no standardized reporting of rates by microfinance institutions as there is in the commercial finance industry. Efforts are being made to increase transparency by publishing and aggregating these numbers through Microfinance Transparency a non-governmental organization endorsed by industry leaders at the Asia Pacific Microcredit Summit in July. Consumers will benefit from clear and consistent pricing information to make informed decisions.

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## MAKE THE MOST OF YOUR CHARITABLE GIFT ACCOUNT ASSETS

This fall we launched our microfinance guarantee program, the first program of its kind to enable donors to recommend that a portion of their Charitable Gift Accounts be used to guarantee microfinance loans. The new program is designed to allow donors to maximize their charitable impact by putting assets in their Charitable Gift Accounts to use as a microfinance guarantee while they are invested for growth and future granting. The donors enable a portion of their charitable accounts to be used as valuable guarantees. By aggregating donor assets, Schwab Charitable democratizes access to the guarantee model historically only available to private foundations and the very wealthy.

In collaboration with Grameen Foundation and Developing World Markets, Schwab Charitable will increase the availability and reduce the costs of available microfinance loans in a number of developing markets. "We are always looking for ways to help our donors maximize their charitable impact and we hope this is just the first in a series of innovative charitable ways to pledge assets held in Charitable Gift Accounts," said Kim Wright-Violich, President of Schwab Charitable. "Microfinance is the natural first step because it has a strong and successful track record, has proven to be sustainable and helps people move toward self-sufficiency." Depending on the level of interest in this program, in the first year alone we could help 100,000 would-be or struggling entrepreneurs begin to work their way out of poverty.

The Schwab Charitable guarantee program is optional and available only to Schwab Charitable donors. Donors who agree to participate will recommend that up to 10 percent of their Charitable Gift Accounts be promised for a period of 24-36 months to help guarantee microfinance loans. Any funds they recommend to guarantee microloans will stay in their accounts and continue to be invested for the entire period. Only if the microfinance program has losses in excess of reserves will a portion of the promised amount convert to a grant from the account to cover those losses. In addition, Schwab Charitable will report back to participating donors on the social impact and value that these microfinance loans provide to borrowing entrepreneurs and their families.

For more information about Schwab Charitable or the Schwab Charitable microfinance program, visit [www.schwabcharitable.org](http://www.schwabcharitable.org) or call a Donor Relations Specialist at **800-746-6216**.



## MICROCREDIT INFORMATION SOURCES

[www.grameenfoundation.org](http://www.grameenfoundation.org)

[www.dwmarkets.com](http://www.dwmarkets.com)

[www.mixmarket.org](http://www.mixmarket.org)

[www.mftransparency.org](http://www.mftransparency.org)

[www.yearofmicrocredit.org](http://www.yearofmicrocredit.org)

[www.microlinks.org](http://www.microlinks.org)

[www.gdrc.org](http://www.gdrc.org)

[www.microfinancegateway.org](http://www.microfinancegateway.org)

[www.kiva.org](http://www.kiva.org)

[www.micropplace.com](http://www.micropplace.com)

[www.mcenterprises.org](http://www.mcenterprises.org)

[www.unitus.com](http://www.unitus.com)

[www.accion.org](http://www.accion.org)

*A Billion Bootstraps*, Phil Smith & Eric Thurman (2007)

*Banker to the Poor: Micro-Lending and the Battle against World Poverty*, Muhammad Yunus (1999)

*The End of Poverty: Economic Possibilities for Our Time*, Jeffrey D. Sachs (2005)

*Replicating Microfinance in the United States*, James Carr and Zhong-Yi Tong (2002)

*Transforming Lives \$40 at a Time*, Dana E. Whitaker (2007)



## MANAGING YOUR CHARITABLE ACCOUNT ONLINE JUST GOT EASIER

Have you discovered how easy it is to manage your Charitable Gift Account online? Through Schwab Charitable Fund's secure online Donor Center you can review your past account activities, recommend grants to the charities you care about, view grant letters, contribute to your account, and recommend account investment reallocations, and much more.

To view a guided tour of the Donor Center and how it can help you manage your charitable giving more effectively, please visit [www.schwabcharitable.org](http://www.schwabcharitable.org) and click on the "View Demo" button.

*To contact us, write to Schwab Charitable 101 Montgomery Street San Francisco, California 94104. Call us at 800.746.6216 or send an e-mail to [ask@schwabcharitable.org](mailto:ask@schwabcharitable.org).*


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Photo: Courtesy of Grameen Foundation

Gender has also proven a touchstone for debate. Many microfinance institutions supply loans primarily to women. In most developing countries, women are oppressed, and yet, given access to money, they thrive as entrepreneurs and their self-esteem increases significantly. When women prosper, so do their children, but at what cost to the social fabric and cultural norms? Female empowerment is more than a side effect of loans; it is a desired outcome for many microfinance institutions. The Grameen Bank's "Sixteen Decisions," resolutions made by borrowers, explicitly includes planning for smaller families, forswearing the dowry system and renouncing child marriage. Such pledges have an indisputable impact on local culture, which can lead to opposition and resistance.

### Closer to Home

At a time when Americans are faced with a bear market, rising oil prices, rising food costs and a sub-prime mortgage crisis, there are people in our own country who could use help too. Although sophisticated financial infrastructure exists, it is not universally accessible in inner-cities and isolated rural areas. Miniature loans to small businesses and entrepreneurs (primarily to women, minorities and immigrants) in America are relatively small by domestic standards, but much larger than those provided by micro-

finance institutions in developing countries. Acción USA is one microfinance institution working domestically, engaged in a Building Economic Opportunity Campaign to help extend financial services to the underserved. Many burgeoning American entrepreneurs, who lack other options, turn to credit cards to finance the growth of their businesses, often to deleterious effect. Like abroad, micro-credit at home is coupled with business training programs for the borrowers.

Financial literacy also offers opportunities to impact many lives in the states. Carrie Schwab-Pomerantz, President of the Charles Schwab Foundation, observes of the unbanked and underbanked, "Poor Americans need to put their faith in many of the same institutions embraced by higher-income consumers, because they are not going to break out of poverty relying on expensive check-cashing shops and pay-day loans." New technology such as mobile banking and prepaid debit cards are bringing banking services to Americans whose financial lives previously existed outside the system.

### Conclusion

A microcredit loan, unlike a simple donation, continues to work in a community every time it is repaid and recycled into the system. Rather than giving someone a fish, a micro-loan provides the means to buy a pole. In an interconnected and global community, empowering the poor through sustainable methods makes the world a better place for all of us. Since poverty foments extremism and ill will, global security may best be improved by a rising economic tide. The demand for microfinance capital is huge and the available capital supply is large and growing, but not yet equal to the demand. Whether microfinance will be the ultimate weapon in the war on absolute poverty remains to be seen, but it is a highly popular idea which is galvanizing philanthropists and businessmen alike.