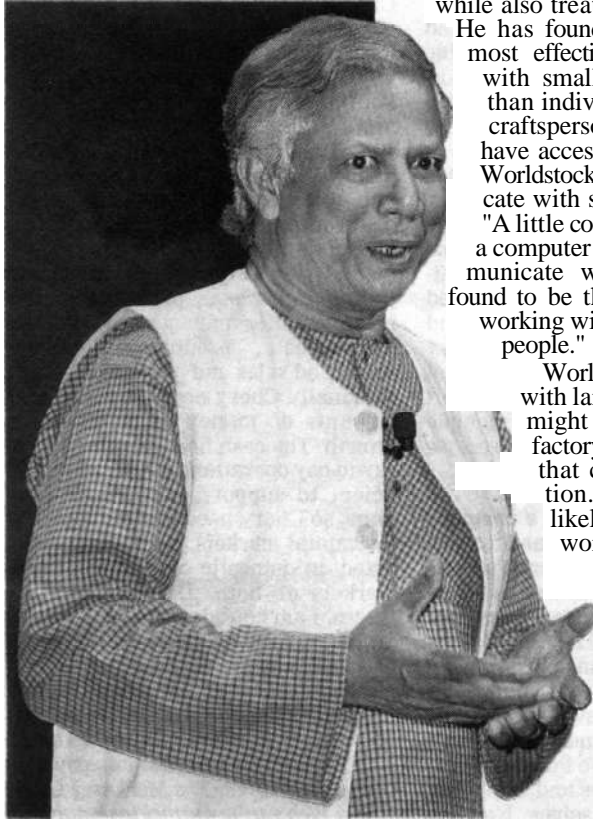


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## Are for-profit businesses helping the poor?

*Experiences from across the world suggest that the answer might be both yes and no*



Can a company make money from the work of impoverished people in the developing world without taking advantage of them?

For Patrick Byrne, the answer is a qualified yes. Byrne believes that he has found a way for his company, Overstock.com, to benefit while it helps developing-world artisans connect with developed-world customers. But for Chuck Waterfield, creator of Microfin, a software program he wrote for microlenders, the answer is a qualified no, at least as it applies to Compartamos, a well-known microfinance lender operating in Mexico.

Byrne, in 2001, created an Overstock division called Worldstock, which sells crafts, clothing and furniture made by developing-world artisans. His original idea for Overstock was to cut out middlemen in the retail industry by using the Web's expertise in logistics to sidestep the so-called "jobbers" who traditionally bought and resold retailers' excess inventory. Byrne figured that his company could perform the same sort of service for craftspeople in the developing world, cutting out the importers and boutiques that often stand between them and consumers in the United States.

Among the wares that Worldstock sells are stools made in Peru, table settings crafted in Indonesia, and carpets woven in Tibet. "These aren't sympathy products," Byrne says. "We're say-

ing, 'Buy this carpet because it's beautiful.'" When these products enter the American retail system," they end up in upper-end boutiques that charge five times what we're charging.

Byrne has organised Worldstock to efficiently market artisans' wares while also treating those folks fairly. He has found that it can operate most effectively when it trades with small cooperatives rather than individual artisans. A solo craftsman won't typically have access to the Internet, and Worldstock prefers to communicate with suppliers via the web. "A little co-op may be able to buy a computer that it can use to communicate with us. What we've found to be the most successful is working with groups of five to 25 people."

Worldstock won't trade with larger groups because it might then end up selling factory-made goods, and that could hurt its reputation. Factories are more likely to exploit their workers than small co-ops are, Byrne argues.

Byrne's travels originally piqued his interest in the ways that for-profit enterprises could help people in the developing world. When his journeys began, he was a philosopher — he earned a doctorate in the subject from Stanford University — not a businessperson. He had also studied economics, and his travels left him wondering about the United States' and Western Europe's ethical obligations to the developing world.

"I was somewhat discouraged with the NGO (nongovernmental organiza-

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tion) world," he recalls. "From my experiences in Southeast Asia and China, I was pretty cynical," he says. He had come to the conclusion, for example, that big NGOs, like the World Bank and the international Monetary Fund, "might be doing more harm than good." He began thinking about

ways in which Western-style capitalism might succeed where the NGOs were failing. This led him to the work of economist Muhammad Yunus, who pioneered the practice of microfinance — making tiny loans to very poor people — in his native Bangladesh. Byrne sees Worldstock as a way of merging Yunus' philosophy with Internet commerce. "I think we are the largest fair-trade-style organisation in the world," he says. "We are now in 35 countries. We're just about to cross \$50 million in lifetime sales of which \$30 million has been paid back to the suppliers. We're trying to get the money as directly to the artisans as we can with as few markups as possible. Our goal typically is to triple people's income."

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Compartamos' numbers have brought controversy, with critics complaining about the interest rates it charges — typically about 100 percent — and its roots as a nonprofit.

Waterfield, is less pointed in his remarks but hints that he shares at least some of the skeptics' views. He notes, for example, that Wal-Mart's bank in Mexico usually charges less for loans than Compartamos does. Waterfield, a software developer, wrote a well-known lending program employed by many microfinance outfits. "Compartamos was one of the first organisations to use my software," he says, adding that no one has accused Compartamos of operating illegally.

"There's no one acceptable interest rate for microfinance institutions. Interest rates need to differ (depending on) the country where you're operating, the services provided and the size of the loan." Some countries pose more risk than others, and tiny loans cost just as much to administer as bigger ones do. Lenders must charge higher rates for smaller loans to cover their costs. "Interest is variable, but costs are fixed," he noted.

Even so, Waterfield wonders whether Compartamos might be taking advantage of people with limited access. When compared with other microfinance firms, the bank seems to rake in money. "Other institutions with similar loan sizes are charging less than Compartamos, and that difference is profit," he says. "There's nothing illegal here. They charge what the market will bear." In theory, Compartamos' customers will compare its rates and services with those of its competitors and go elsewhere if they feel cheated. Yet the developed-world principle of buyer beware may not work in the poorest parts of the world, Waterfield warns. "There are no truth-in-lending laws in many countries."

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