The Role of Microfinancing in Planning

Richard N. Ruiz

California Polytechnic State University San Luis Obispo

Abstract

The purpose of this research paper is to analyze the sources of poverty through a planning context and several solutions in alleviating poverty through improving lower income access to financial resources, particularly through the concept of microfinancing. The aspects explored are the concept of poverty, a history of poverty policy including misperceptions and identified contributors to poverty, and the possible solutions based on the analysis. From there, the paper will explore the concept of microfinancing, its theoretical foundations and currently implemented programs in the United States. These case studies will be evaluated based on their effectiveness in impact, outreach, and sustainability of the program. These case studies prove the poor worthy of receiving financial services and ability in improving their livelihoods from such services. The paper will conclude by encouraging the addressing of the financial services mismatch that heavily not only inhibits the upward mobility of lower income individuals, but also a significant contributor to poverty.

Table of Contents

1. Introduction

As the economic recession of 2007 continues to impact the United States, the problem of poverty has grown in severity, affecting rural, urban, and suburban communities. Even when not taking into consideration the effects of the economic downturn, historically low-income communities have been crippled for decades from a significant reduction in tax revenue and resources caused by long-term development patterns. Disinvestment not only makes it difficult for the individuals living in such communities, but also hampers the tax revenue needed by municipalities to maintain or improve services. Because of this, creative solutions in economic development are a priority in addressing disinvestment, and planners are among those crafting programs to revitalize disinvested communities. While top-down solutions have historically been utilized to create reinvestment, such solutions have had contested impacts, sometimes transferring the issue of poverty out of one community and into other communities as opposed to creating positive change for those directly within the community. A promising solution in addressing the needs of low-income communities looks to directly empower those in need, creating grassroots reinvestment though improving low-income access to financial resources. This can be done specifically through the concept of microfinancing, or providing small loans to individuals considered too risky to be given loans by traditional lending institutions.

This paper will begin with a literature review defining poverty and the federal measure of poverty. The literature review will then continue with an analysis of the policies and top-down federal poverty-alleviating programs implemented in the United States during the 20th century. The discussion will then shift to the lessons learned from the 20th century and the economic recession of the early 21st century, followed by planning tools and concepts that can alleviate poverty from a grassroots grassroots approach, specifically with microfinancing to address the

financial services mismatch. This part of the paper will look at the economic theories that make up and support the concept and continuing on with a case study review to examine and analyze three different microfinancing programs currently in place in the United States: The Southern Good Faith Fund in Arkansas and Missouri, nation-wide ACCION USA program, and Grameen America in New York. This paper will then conclude with a recommendation to look at addressing economic development as one of the priorities in addressing poverty.

2. Literature Review

The literature review will begin with the definition of poverty and the federal poverty line in the United States. The next section will then analyze the history of poverty and top-down poverty policy in the United States during the 20th century, starting with President Lyndon Johnson's War on Poverty in the 1960s, President Ronald Reagan's War on Welfare of the 1980s, and continuing on to President Bill Clinton's End of Welfare and the beginning of the 21st century. From here, the poverty policies will be analyzed along with the repercussions from their effects. The lessons learned from the top-down approaches to poverty policy throughout the 20th century and the issues that remain will then be addressed with economic development solutions from a grassroots perspective that correct the economic mechanisms that contribute to poverty rather than the effects that occur out of being in poverty.

2.1 The Definition of Poverty

Before any discussion of addressing and alleviating poverty can occur, poverty must first be explicitly defined. The United Nations definition of poverty is as follows:

> Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation (Gordon, 2005, p. 4).

While the concept of poverty is explicitly defined, the threshold in which to determine poverty is not. In Muhummad Yunus' book, *Creating a World without Poverty*, a World Bank study mentions over 33 different definitions of a poverty threshold used in different countries to address the needs of their own people (Yunus, 2007).

The current federal poverty line was established in 1963. The formula created was an estimate of a minimum food budget for a family of four (a figure based on the 1955 Household Food Consumption Survey) multiplied by three. The poverty line also includes proportioned levels for larger and smaller families. These figures are updated each year according to the annual Consumer Price Index (Blank, 2008). If a person or family's household income fell below the predetermined amount, they would officially be in poverty. On the contrary, if the household lives above the predetermined amount, they would not be considered living in poverty, even if the difference between the poverty line and the income is marginal.

In the United States of America, the federal, state and local governments all define poverty differently by using different variables. Much of this confusion lies in the way poverty has been handled for much of the 20th century.

2.2 History of Poverty

While much academic research in poverty occurred in the 1950s and 1960s, the policies that prevented equal access to financial services and resources were in place during the first half of the 20th century. There were two primary elements that affected upward mobility of the lower income class: redlining and population shifts towards the cities and eventually, the suburbs.

2.2.1 Redlining and the Financial Services Mismatch

> When lenders refuse to lend or do so only on more stringent terms in designated neighborhoods, regardless of the expected yield or loss in those areas, the personal costs to those families become social costs to the broader metropolitan area as entire neighborhoods are threatened. These problems are compounded when the principal issue is race (Squires, 1992, p. 2).

According to the book, *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*, the practice of redlining is "a process by which goods or services are made unavailable, or are available only on less than favorable terms, to people because of where they

live regardless of their relevant objective characteristics" (Squires, 1992, p. 2). The practices of mortgage and real estate redlining have negatively affected minority communities since the 1930s. In his book, *Creating a World without Poverty*, Muhummad Yunus (2007) explains the importance of such financial products for the poor by allowing a glimpse into their daily occurrences:

> Imagine if the global electronic communications system of the banking world suddenly collapsed and every financial institution in the world suddenly stopped functioning. Banks everywhere would shut their doors. ATM screens would go blank. Credit and debit cards would no longer work. And billions of families would be unable even to put groceries on the table…If the poor are to get the chance to lift themselves out of poverty, it's up to us to remove the institutional barriers we've created around them. We must remove the absurd rules and laws we have made that treat the poor as nonentities. And we must come up with new ways to recognize a person by his or her own worth, not by artificial measuring sticks imposed by a biased system (p. 49).

Many financial institutions to this day would argue that their reasons for rejecting loan and mortgage applications from low-income individuals would not be as a result of racial exclusion, but more of a function of financial assets. However, racial exclusion has been significant factor in financial institution and real estate redlining practices from the 1930s to the 1970s. This could be argued as a primary source of the close association between race and income class. Two significant innovations in home ownership were established around the 1930s: the long-term mortgage and federal insurance for mortgage loans. This made owning a home much more affordable and lowered the risk for lenders to provide such loans. These innovations spawned a rating system that evaluated different neighborhoods and it was though this system did race become a factor in determining land value. Squires (1992) explains:

> Racial homogeneity was explicitly identified as a criterion for evaluating properties; but it was clear that not all homogeneous neighborhoods were equally valued. The appraisal of one St. Louis County neighborhood concluded that houses had 'little or no value today, having suffered a tremendous decline in values due to the colored element now controlling the district'…From 1924 until

> 1950 the National Association of Real Estate Boards included the following statement in its national code of ethics, 'A realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individual whose presence will clearly be detrimental to property values in the neighborhood' (p. 4).

Sociologists made claims with which racially-exclusive practices were based and directly influenced financial lending institutions and government housing agencies with their determinations. Squires (1992) provides an example:

> In a 1933 report for the Federal Housing Administration, Hoyt ranked fifteen racial and ethnic groups in terms of the impact of their presence on property values…Those having the most detrimental impact were Negroes and Mexicans (p. 5).

Racial discrimination through financial redlining significantly reduced the financial resources of minority communities through the artificial deflation of their property values. This is considered a primary source of the link between race and income class (Blackwell, 2007). Through a shift in development patterns after World War II, low-income communities would face additional hardships, further limiting the abilities of the lower income classes to improve their livelihoods, minority and Anglo American alike.

2.2.2 Population Shifts that Exacerbated Poverty

Large population shifts as a result of development patterns have had significant effects on the economic vitality of urban and rural communities. Lewis Mumford wrote about the four major migration shifts in the United States, with the first migration being the settlers of America, the second migration being a shift from rural farms to factory towns, the third migration being a shift from such towns to the urban metropolis, and a fourth migration from the urban metropolis to the outlying suburbs (Fishman, 2005). During the third migration (and continuing to this day), rural communities have felt economic disinvestment as investors and developers chased residents

moving to urban areas. It was during the fourth migration did a mass affluent exodus from the cities to the suburbs (known as "White Flight") occur, leading to disinvestment becoming a problem in urban communities. The fourth migration was accelerated by several factors after World War II, from the help of economic incentives created by the GI Bill and the post-war housing boom to the construction of the interstate highway system and creation of the long-term mortgage loan.

Each element played a part in the decay of the city's urban core. "White Flight" not only meant a mass migration of the affluent away from the city, but also an evacuation of a significant chunk of the urban tax base as well. This led to deterioration in the quality of public services and reduced funding for inner-city schools, hospitals, and libraries. The Interstate Highway System was also built through the city on land with the lowest property values, typically minority communities with artificially deflated values through racially discriminatory real estate practices. This isolated and divided minority neighborhoods, as well as further lowering the quality and value of such areas with increased pollution and noise. In the book, *Suburban Nation*, Andres Duany, Elizabeth Plater-Zyberk, and Jeff Speck (2000) elaborate on these consequences:

> Two aspects of suburbanization contribute dramatically to the plight of the urban poor: government investment in suburb-serving highways has left many inner-city neighborhoods sundered by high-speed traffic, and disinvestment by fleeing corporations robs city residents of adequate access to jobs…Corporate flight to the metropolitan fringe would be less damaging if adequate public transportation existed to bring the urban poor to and from exurban jobs. Unfortunately, most new jobs in the suburbs are accessible only to people with cars, and automobile ownership is a hurdle that the would-be working poor are often unable to surmount (p. 60).

This spatial mismatch as a result of "White Flight" led to additional reductions in job opportunities and economic stabilization in the inner city. Even if racially discriminatory financial practices have been barred, opportunity is still difficult for the poor to attain for other

reasons. In her chapter, *Fighting Poverty with Equitable Development*, within the book, *Ending Poverty in America: How to Restore the American* Dream, Angela Glover Blackwell (2007) writes of the questions raised as a result of spatial mismatch:

> …even if a person of color living in a low-income urban community is protected by antidiscrimination laws, does that worker have the means of transportation to connect to a stable, living-wage job that is likely located far from the central city? Are there affordable housing options in job-rich areas that would allow the worker to move closer to employment opportunity? Did she or he have economic or geographic access to the higher education- or even a sound basic education from disinvested neighborhood public schools- that may be required to qualify for that "equal-employment opportunity" job in the first place (p. 245)?

In 2009, the National Coalition for the Homeless reinforced these issues in a report that determined reduced public services and lack of job opportunities as two significant factors that lead to homelessness and poverty (National Coalition of the Homeless, 2009). The development patterns of the 20th century have played a large role in exacerbating poverty and disinvestment (Fulton & Shigley, 2005; McDonald, 2008). The poverty problem was so pronounced by the 1960s that President Lyndon Johnson had decided to mobilize his resources in the first federal attempt to address poverty.

2.2.3 Lyndon Johnson's War on Poverty

President Lyndon Johnson first spoke of the "unconditional war on poverty" in his State of the Union address in 1964. The Economic Opportunity Act, signed into law in 1964, created the Office of Economic Opportunity, solely dedicated to fighting poverty and concentrated on addressing several key areas:

- Community Action programs in urban cores to improve community participation.
- Job Corps to train young men for skilled employment.
- Neighborhood Youth Corps to put semi-skilled urban youth to work.

- Upward Bound to provide students better opportunities for college.
- A work-study program where the government and colleges share the cost to hire students.
- Volunteers in Service to America (VISTA), a domestic version of the Peace Corps (Katz, 1989; McDonald, 2008).

As the first significant attempt to address poverty on a federal level, Lyndon Johnson's War on Poverty fell short of its' well-intentioned promises. The program's shortfalls tarnished any future attempt to address poverty on a federal level. This was attributed to a complex set of issues the Johnson administration could not have anticipated. One of the initial failures was in the program's naming, a political calculation with which President Johnson gambled with. The strong rhetoric used in the term, "War on Poverty" alluded to high ambitions set forth by the country's technological victories over previous evils found in war, economic depression, and other national hardships (Katz, 1989). The rhetoric also served political purposes:

> To justify the adoption of the Economic Opportunity Act, the Johnson administration would have been required to identify substantial problems which those policies could not solve. Such an attempt would have been time-consuming and unlikely to succeed, given the predispositions of Congress and the nation. A far more expedient course would be for the proponents of the act to offer a counterpresumption which would have enabled *them* to claim preoccupation of the ground. This function the military symbolism accomplished. When a nation is at war, by definition, it had acknowledged the existence of a foe sufficiently threatening to warrant attack. A crisis is at hand, the need for action is assumed, and the persistent challenge of the enemy becomes prima facie evidence of the insufficiency of existing measures (Zarefsky, 1986, p. 32-33).

Such language ultimately backfired on the Johnson administration, amplifying each failure and the political opposition that came with it. Losing any war, metaphorical or literal, was not popular (Katz, 1989; Zarefsky, 1986).

Another failure was that of the information used in crafting the anti-poverty policies. Understanding the sources of poverty was still a relatively new field in need of much scientific

exploration at the time. Because of this, not only was the war on poverty fought using an incomplete understanding of the issue, virtually no one attempted to refute the Johnson administration's set of knowledge on the topic (Zarefsky, 1986).

Many of the reports used to craft the policies of the War on Poverty reflected a theory that would eventually be called the "culture of poverty". Katz (1989) writes:

> …culture of poverty theorists located the perpetuation of poverty in attitudes and behaviors transmitted from one generation to the next. [They] stressed the origins of those behaviors in the legitimate frustration and alienation bred by blocked opportunities; and both used similar indicators to identify the "culture of poverty" or "tangle of pathology": a high proportion of female-headed families, unrestrained sexuality; an inability to defer gratification, and an apathetic withdrawal from social involvement (p. 18).

This theory has been most influential in establishing pathological behavior as a primary driver in the creation of poverty. These discussions ultimately led to analyses of the social pathology of the poor, particularly urban African American families (Katz, 1989).

One of the most controversially influential reports on this discussion, *The Negro Family: The Case for National* Action, heavily polarized the dialogue. The report, conducted by Daniel Patrick Moynihan, suggested a "self-perpetuating cycle of poverty" within the African American pathology. Failing to adequately compare household characteristics between African and Anglo American households, the report manipulated statistics by noting increases in single parent households, divorce rates, and out-of-wedlock births within the African American community, while ignoring altogether similar trends within the Anglo American community. If statistics between the Anglo and African American communities were explicitly compared, similarities in trends would have outweighed the differences (Katz, 1989).

Other problems with the Moynihan report and other influential findings supporting the culture of poverty theory included:

1. Most discussions lack a consistent definition of culture and subculture.
2. The literature includes no uniform set of characteristics.
3. Assumptions about the mechanisms perpetuating the culture of poverty fail to look at situational explanations (and thus situational solutions).
4. Explanations of the culture of poverty were circular fallacies that never explicitly separated poverty's causes and effects.
5. Culture of poverty theorists have failed to pursue links between subcultures, social institutions, and social structures.
6. Boundaries between culture, class, and ethnicity remain vague in most writings.
7. The culture of poverty is an ethnocentric idea, defining differences as pathologies. This fails to understand positive, adaptive significance and the validity and coherence of other cultures or subcultures.
8. The theory's assumptions about how poor people react to a change in circumstances rests on deduction, not evidence.
9. Much of the focus rests on families and fails to examine other contexts and social interactions (Katz, 1989).

As a result of inaccurate information, the policies built from them fell short of addressing poverty. President Johnson's Economic Opportunity Act created a completely new office, the Office of Economic Opportunity, as opposed to utilizing and expanding current federal departments. This had several consequences:

1. Given the amount of money, effort, and political capital the administration expended to approve the program, the results expected went beyond what even a well-funded, well-executed department could not reach in the short amount of time the program was given.

2. The Johnson administration's distrust of other federal departments in handling poverty-related issues surrendered the opportunity to reform those departments and the programs within them.
3. The federal government was in direct control of the programs as opposed to financing and granting such responsibilities to local city and state governments, which mayors and some congressmen alike preferred, arguing that the structure of the program made it more difficult to coordinate, manage, and avoid administrative problems (Zarefsky, 1986).

However, the Johnson administration could not mitigate around the consequence of circumventing local governments. The reasoning in this decision paralleled the logic used in the passing of the Civil Rights Act, which occurred before the passing of the Economic Opportunities Act. Zarefsky (1986) explains:

> …the local electorate underrepresented the poor, who were less likely to participate in politics or to be convinced of its efficacy, and who felt excluded from the political process. The fear was that local officials would not be attentive to the needs of the poor, whose active involvement was thought essential for the success of the program. Traditional politics was, as Michael Lipsky put it, "a bargaining arena from which the poor are excluded because they have nothing to trade (p. 124).

In the goal of expanding community action, the strategy of the War on Poverty deliberately circumvented existing local governments, empowered minorities and the poor, and challenged existing institutions (Katz, 1989).

While the goal was improved community participation by the poor, the means in which to attain this would remain flexible and addressed within the context of an individual municipality. The flexibility was a compromise in response to complaints and pressures by local government leaders. This however was eventually manipulated to ensure those in power remained in power and that the poor would not disrupt the status quo. In several cases, the concept of community

participation was interpreted by many local politicians to only mean employment of the poor as opposed to including the poor directly in the policymaking process. The jobs the poor were offered was nonprofessional employment, typically menial labor jobs, which provided little to no opportunities for pay raise and movement up the career ladder (Zarefsky, 1986).

The administration attempted to address this with an amendment to require one-third of the governing boards of community action agencies be representatives of the poor, the neighborhood elections conducted to select these members had very low turnouts. One probable reason was that some of these elections required proof that one was in a state of poverty, a practice deplored because of the shame involved in being identified as poor. Chicago Mayor Daley explained this “pauper’s oath” as “the most disgraceful thing that is facing our Nation” (Zarefsky, 1986, p. 132).

The individuals that were attracted to such positions on the poverty board were cherry-picked by those already in power. Because of this, they were unable to effectively address issues for several reasons. Zarefsky (1986) elaborates:

> Board membership was a realistic opportunity only for those among the poor who were relatively the best in education, upward mobility, and leadership abilities. Accordingly, selection for membership became a “creaming” process, in which the natural leaders were drawn into an establishment-dominated board. They thereby lost the opportunity to exert independent leadership, and the poverty board meanwhile made no dent in the hard-core problem (p. 133).

The poor serving on these boards, susceptible to political maneuvering tactics, were also easily manipulated by existing board members who wanted to ensure the status quo remained. This political gridlock on the local level spelled the war on poverty’s failure in addressing community action. In addition, job creation was not a direct strategy of the war on poverty. The administration instead opted for tax cuts, hoping such efforts would create more jobs and prepare people for jobs, significantly less expensive and less effective strategy (Katz, 1989).

In addition to poorly crafted policies, not much was done in addressing the economic mechanisms that create and exacerbate poverty in America. One such previous obstacle left untouched was redlining on the basis of race. While racially discriminatory language was removed from Federal Housing Administration manuals by the 1960s, redlining on the basis of race was still commonly practiced:

> As late as the 1977 edition of *The Appraisal of Real Estate*, published by the American Institute of Real Estate Appraisers, which is a division of the National Association of Realtors, the institute cited one of the factors to be included for neighborhood analysis as 'prevailing nationalities, infiltration.' Training materials used by the institute included the following example in its illustration of neighborhood analysis: 'The neighborhood is entirely Caucasian. It appears that there is no adverse effect by minority groups' (Squires, 1992, p. 6).

During the War on Poverty, the Federal Housing Authority began providing insured mortgages to urban neighborhoods. While access by urban communities was now permitted, the manner in which such financial products were available was left open to interpretation:

> Unscrupulous real estate sales representatives and developers coaxed unwary first-time (often minority) home-buyers to purchase homes they could not afford to maintain, frequently resulting in foreclosure of the loan and loss of the home. With the mortgage insured and closing costs paid up-front, the financial interests of real estate sales representatives and lenders were protected (Squires, 1992, p. 6-7).

With minorities making up a majority of urban communities, these loopholes continued to reinforce the connection between race and income. This remained an entrance to poverty for minority and majority ethnic groups alike up to the present.

The War on Poverty can be considered successful in that it addressed the effects of poverty, such as supporting poor children in education and reducing hunger through the creation of food stamps (Katz, 1986). However, a combination of federal and local government responsibility conflicts, inaccurate information used to craft anti-poverty policies, poor application of the policies, and a lack of addressing the economic mechanisms that limit

economic opportunities caused the War on Poverty to fall considerably short of its' desired goals. As a result, the War on Poverty eventually led to a conservative philosophical shift against increased federal government spending.

2.2.4 Repercussions and Ronald Reagan's War on Welfare

In the 1970s, economic stagflation pushed liberal policymakers to expand welfare programs, raising taxes in the process. Business interests felt a decline in profits and worked to address their needs within the issue by lowering wages through reduced union influence and cutting social programs. This further complicated low-income households' ability to remain financially stable. This combination of reduced wages, raised taxes, and slower economic growth gave conservatives enough political capital to go after the largest liberal target, welfare:

> Welfare was an easy target, first because its rolls, and expense, had swollen so greatly in the preceding several years and, second because so many of its clients were unmarried black women. Welfare, it appeared, encouraged young black women to have children out of wedlock; discouraged them from marrying; and, along with generous unemployment and disability insurance, fostered indolence and reluctance to work. Clearly, it appeared, however praiseworthy the intentions, the impact of the war on Poverty and the Great Society had been perverse. They had worsened the very problems they set out to solve by destroying families, diffusing immorality, pushing taxes unendurably high, maintaining crippling wage levels, and lowering productivity (Katz, 1989, p. 138).

Being based on a program which failed on its own philosophical premise, the welfare system could not be saved by liberals, as they were not able to tie the expansion of welfare to economic and moral renewal. The American people began to see the War on Poverty as a linear set of failures for which liberal policymakers were to blame: "stagflation; declining opportunity; increased taxes and welfare spending; crime and violence on the streets; and the erosion of families and moral standards" (Katz, 1989, p. 139). While there was no concrete evidence to

support this reasoning, the argument was plausible and coherent to many; however, these beliefs would not go unchallenged.

Research by other poverty experts during the 1970s began to challenge from such thought. One of the most influential of these reports was conducted by anthropologist Carol Stack in her study, *All Our Kin*. Stack criticized Moynihan's report, stating that he, as well as other social scientists at the time, "remained trapped within conventional definitions of family that failed to capture the domestic definitions of poor black Americans" (Katz, 1989, p. 49-50). By reevaluating the definition of family as "the smallest, organized durable network of kin and non-kin who interact daily, providing domestic needs of children and assuring their survival," Stack shed light upon the differences in family structure between black and white households and provided explanations behind them. For example, the rise in single-parent households in the black community, particularly ones headed by females, was traced to "the early death of black men forced into unhealthy and dangerous work and to the inability of poor black women to remarry" (Katz, 1989, p. 50-51).

Regardless of the theoretical challenges to the culture of poverty, conservatives continued to utilize it, and reiterated the belief that welfare was limiting and demoralizing. As a result, the majority of Americans were led to believe that "slicing benefits would stimulate the economy, create jobs, and force poor people into an independence that, in the long run, would leave them happier and better off" (Katz, 1989, p. 140).

The resurgence of conservative thought was symbolized in 1980 when Ronald Reagan was elected president. President Reagan addressed the economic downturn through commercial deregulation and targeting welfare programs as wasteful spending, calling these decisions the "War on Welfare". As federal welfare programs were dismantled or shrunk, the concept of

poverty and the underclass were recklessly redefined in American culture as a mixture of "alarm and hostility" that fed off of the fears of more affluent Americans. Katz (1989) states:

> What bothered observers most was not their suffering; rather, it was their sexuality, expressed in teenage pregnancy; family patterns, represented by female-headed households; alleged reluctance to work for low wages; welfare dependence, incorrectly believed to be a major drain on national resources; and propensity for drug use and violent crime, which had eroded the safety of the streets and the subways…In fact, the very poor evoked two different images among affluent Americans. When they appeared pathetic, they were the homeless; when they seemed menacing, they became the underclass (p. 199).

This train of thought in regards to the poor continued to permeate political discussions into the 1990s and beyond, as mass media interpretations of the underclass and the poor have undergone little change. Reinforcing the connection between race and class, racial discrimination continued to be prevalent in the decision to provide mortgages and other financial products during this time. Squires (1992) explains:

> Recent studies in mortgage lending in several cities have documented the persistence of racial disparities even after taking into consideration family income and wealth, age and condition of housing, residential turnover, and other factors related to the credit worthiness of residents and security of property – factors that affect the risk presented by mortgage applicants and presumably serve as the basis for underwriting decisions (p. 13).

2.2.5 Bill Clinton and the End of Welfare

When Bill Clinton was elected president in 1992, many poverty experts proclaimed the end of conservative "trickle-down" economics and the beginning of a new era of renewed interest in liberal poverty research. Bill Clinton had a reputation of supporting policies that emphasized the empowerment of the poor. In Alice O'Connor's (2002) history of poverty policy and science, *Poverty Knowledge,* she writes of his extensive resume:

> As governor of Arkansas, Clinton had presided over one of the country's toughest "tough love" workfare programs…and as a proponent of knowledge-based reform. As a leading "new Democrat," he had fully embraced the mid-1980s consensus on welfare that poverty knowledge had helped to forge, emphasizing the importance of individual responsibility, parental support, public-private partnership, and labor market "self-sufficiency" in his own calls for reform. The Clinton-gore ticket had also adopted the central themes of poverty expertise in literature for the 1992 campaign, which talked about "empowering" poor Americans by improving wages and job opportunities while also expecting them to work. Most important, he was actively recruiting from familiar research and advocacy networks for the brain trust that would put Democratic policy making back on the political map (p. 287).

In 1994, President Clinton established the Federal Empowerment Program, which provided federal incentives to urban communities. Applicants were required to develop a Strategic Plan, assessing the opportunities and constraints within their communities and structuring a plan to address them. The program provided employers within designated zones wage credits for hiring individuals located in such designated zones, significant tax deductions, and utility subsidies. While this program initially helped to increase job opportunities in disinvested areas across the United States, the legislation was eventually weakened by reduced criteria for eligibility and larger zone boundaries, allowing the less needy and more organized easier access to such incentives than those in more need of such resources (Davis, LeRoy & Talanker, 2003). Aside from such these the goal of addressing the other economic mechanisms perpetuating poverty was pushed further down the list of priorities during the first two years of Clinton's presidency. This frustrated the poverty experts that Clinton added to his administration; three of his top poverty experts eventually resigned before the end of his first term. The Clinton administration had instead chose to utilize much political capital to address healthcare reform (a fight he ended up losing) as well as deficit reduction. Such decisions ended up slowing down the momentum of his political agenda and by the 1994 midterm election, President Clinton lost the Democratic majorities in Congress. This placed the hopes of

addressing poverty in serious risk as the Republican majorities raised tremendous opposition to liberal expansions to welfare (O'Connor, 2002).

To some, President Clinton placed aspirations for reelection above principle and compromised after the resurgence of the Congressional Republican majority by moving to the Right in regards to poverty policy. By his second term in 1996, President Clinton began legislative work to address poverty through the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, a bill that some characterized as "welfare 'repeal'" and "the worst thing Bill Clinton has done" (O'Connor, 2002, p. 288). What was fascinating was that the ideologically conservative bill was based on poverty reports and recommendations constructed by liberal experts. The bill addressed seemingly constructive approaches to reduce dependency on welfare, such as expanding a policy that created tax incentives for hiring low-income workers (known as the EITC, or Earned Income Tax Credit), a higher minimum wage, broader health insurance coverage and increased child support.

While the bill addressed conservative criticisms of welfare, the items in the bill did little to 1. plug up the economic mechanisms that caused individuals to fall into poverty in the first place and 2. specifically address the "already declining quality and security of jobs" (O'Connor, 2002, p. 292), already a concern of many Americans before an era of significant outsourcing of jobs and ever-increasing globalization. The EITC was known as "undoubtedly the single most important thing President Clinton did to raise family incomes for the low-paid working class," it however ignored feminist recommendations to place a value on the household labor of welfare mothers, lowering the effectiveness of the program weaker than what was needed to help poor households (O'Connor, 2002, p. 292). The underlying mistake behind President Clinton's bill

was that instead of attempting to address the sources of poverty, it contained items that would reduce dependency on welfare, solely an effect of poverty.

2.2.6 Economic Hardships of the 21st Century

Within the first decade of the 21st century, the United States began going through significant changes in the demographics of the poor. Two significant contributors to this occurrence are the burst of the housing bubble and the economic recession, which negatively destabilized two significant financial resources, jobs and housing. A Center for Economic Policy and Research report analyzed from 1996 to 2005 that housing prices increasing 45%, even after inflation adjustments. The same report warned in 2005 that the burst of the housing market bubble could have more serious consequences than the bursting of the stock market bubble since more of the population invested more financial resources in housing than in stocks (Baker, 2005). When the housing bubble burst and prices started to decline in 2006, the average of 45% of additional equity families put into inflated housing costs were lost as housing prices plummeted significantly. From this, Baker estimated that the burst of the housing bubble would lead to a loss of the national Gross Domestic Product of 3.6% to 4.5%, with a proportional loss of employment equating to 5 to 6.3 million jobs lost (Baker, 2005).

As a result, this lead directly to a significant amount of job loss and foreclosures, an average of one in every 54 households receiving at least one foreclosure filing notice in 2008 (Adler, 2009). The burst of the housing bubble triggered the economic recession, altering the demographics of poverty. According to a Metropolitan Policy Program report for the Brookings Institute, poverty no longer became solely an issue of disinvested urban and rural communities, as suburban communities began to see an increase of 25% in the poor population between 2000 and 2008, five times the rate of increasing poverty of urban communities. By 2008, 91.6 million

people, more than 30% of the nation's population, fell below 200% of the federal poverty level (Garr & Kneebone, 2010). As of today, poverty transcends race and geographic boundaries, negatively affecting communities all over the United States.

2.2.7 Lessons Learned

What began as an overambitious federal attempt to address poverty eventually became, to future administrations, the very same reason why some communities are poor. By attempting to circumvent local scales of government that was unresponsive to the needs of the lower class, the Johnson administration failed by applying a single blanket solution, made up of a significant amount of political and financial resources, to a problem that contextually varies from region to region. As a result of its' failures, the Reagan administration utilized conservative rhetoric to target welfare not only as a source of misallocated resources and unnecessary big government spending, but also as itself a source of poverty.

The Clinton administration, when given the opportunity to directly address the sources of poverty with renewed vitality and knowledge on poverty, moved too slowly and produced reform that had mixed results. The Clinton administration was politically leveraged to work on the grounds of conservative rhetoric, reforming welfare rather than addressing macroeconomic mechanisms that cause poverty in the first place. While his sets of reforms added Earned Income Tax Credits to promote the hiring of low-income workers and the Federal Empowerment Zone program, creating incentives to revitalize impoverished communities, the eligibility criteria for such programs was eventually lowered, with the incentives never reaching those who originally needed the resources the most (Davis, LeRoy, & Talanker, 2003). The theme that runs through the 20th century is the reoccurring conflict between the federal scale of government and that of the state and local levels.

Beyond the 20th century, the bursting of the housing bubble and economic recession exacerbated poverty, affecting suburbs on a more significant level than long-disinvested rural and urban communities. The National Coalition of the Homeless (2009) linked foreclosure as a primary source of homelessness and poverty. Poverty in the 21st century transcends race and geological boundaries and the existing economic system is ill-equipped to adequately support low-income households regardless of location. Michael Barr explains in his article, *Banking the Poor*:

> The basic problem is our financial services mismatch: the mainstream financial system is not well designed to serve low- and moderate-income households. Traditional checking accounts often carry high account fees. Paper checks are held for a relatively long time before deposits are cleared. And millions of households who have had problems managing their accounts in the past are stuck in Chexsystem, a private clearinghouse used by most banks to block such individuals from opening new accounts (Barr, 2004, p. 3).

An exacerbated problem of poverty is the direct repercussion of a financial system that has been responsible for the following:

1. Racial discrimination against minorities and their financial assets throughout most of the 20th century.
2. The sustained application of such practices for over fifty years.
3. The creation of obstacles preventing low-income households from improving their livelihoods out of poverty.

Through this understanding, lack of housing affordability, poor education, credit debt problems, and shrinking job opportunities can be considered to be other indirect consequences of the financial services mismatch (National Coalition for the Homeless, 2009). The overarching issue that plagued the addressing of poverty was that all the attempts focused on addressing the perceived effects rather than the actual sources of poverty. It is where addressing its sources can

poverty can truly be alleviated. There will never be a single solution to address poverty, but all constructive efforts should be rigorously dissected in order to be improved upon to further poverty alleviation. The following are a set of elements that have been either untouched or inadequately addressed throughout the history poverty policy.

2.2.7.1 Inadequacies of the Federal Poverty Line.

Many poverty experts argue that the federal poverty threshold to be inadequate in portraying the poverty problem. The formula for determining poverty has not been updated since its creation in 1965 (Michael, 1995). As mentioned earlier, nearly one-third of the American population is currently below 200 percent of the federal poverty level (Kneebone & Garr, 2010). States, such as California and New York, have living standards much higher than the figures in the federal poverty level. For example, the 2004 federal poverty threshold of $19,157 is too low in California, “where the cost of rent alone is often more than half this threshold” (Reed, 2006, p. 5). When the higher living standards in California are taken into account, the 2004 poverty rate of California increased from the official measure of 13.3 percent to the adjusted measure of 16.1 percent (Reed, 2006, p. 5). Because of this, poverty experts call for regionally-contextual figures that reflect the different levels living standards of urban, suburban, and rural regions (Reed, 2006). Not only are these standards problematic in accurately portraying their levels of poverty, but also makes it difficult to prescribe effective solutions in addressing them. Other criticisms of the federal poverty line include:

1. Household incomes before taxes do not take into consideration the additional hardships of having less income after paying taxes.
2. No adjustments based on geographic cost-of-living differences, such as housing and utility costs.

3. No distinction between parents who are and are not working.
4. No distinction between people with higher and lower health care needs and costs.
5. Separating mandatory expenses from income, such as food and housing costs.
6. No consideration of socioeconomic changes, such as recent increases in single-parent and working-mother households.
7. No consideration of government policy changes, such as changes in tax laws (Blank, 2008).

The report recommends adjustments on the poverty threshold based on these criticisms, taking into account at the very least a budget of food, clothing, and housing costs, with an additional amount for other needs such as personal care and transportation. Such a re-evaluation of the poverty line could give policymakers a better understanding of those affected by poverty.

2.2.7.2 Redefinition of the Poverty Debate and Poverty Policy.

Since the 1980s, much of the poverty debate continues to focus on the characteristics and behavior of the poor and fails to rethink the basic outlines or context of such research. O'Connor explains:

> …despite widely celebrated prosperity and a dramatic drop in the welfare rolls, official measures of poverty remain higher than it was for much of the economically stagnant 1970s, and even more for children. In this context, poverty knowledge offers an important reminder that the current political leadership has put far greater importance on ending "dependency" than on fighting poverty (O'Connor, 2001, p. 376).

O'Connor explains a list of recommendations that would redefine the poverty debate back onto its economic structural sources. Her recommendations include:

1. De-pauperizing poverty as a social problem at the outset, by making poverty knowledge a broad-gauged study of political economy rather than a narrow study of the poor.

2. Altering the lens of cultural analysis in order to acknowledge the “culture of poverty” and its variations and to make poverty knowledge instead a study of the broader cultural dynamics that sustain, indeed encourage, social and economic inequality.
3. Generate poverty knowledge within a far more diversified set of institutional arrangements, recognizing the limitations of the “research industry” model that continues to thrive on its ability to service government agencies and the existing policy debate.
4. A reconstructed poverty knowledge that would acknowledge and embrace rather than deny its inherently political nature, not necessarily by adhering to a single, agreed upon ideological alignment, but by opening usually buried interests and ideological assumptions to scrutiny and debate (O’Connor, 2001).

Such a re-evaluation of policy research can be more effective in identifying additional sources and effects of poverty. Through this, planners can craft more effective solutions from a more thorough understanding.

2.3 Planning Solutions

As explained in the previous section, top-down poverty policies have not only been ineffective at addressing poverty directly, but responsible for creating poverty throughout the 20th century. Even the empowerment zone program, meant to be an attempt to revitalize impoverished communities on a grassroots level, has been weakened as a result of local incrementalist decisions influenced by political pressure. The lack of direct addressing of the poverty issue is the fault of planning as well, as “for the past 50 years at least, it has been a basic tenet of public policy in America to use the planning process to try and revive inner-city neighborhoods” (Fulton & Shigley, 2005, p. 254). Part of this reason lies in that the concept of economic development has multiple definitions within the planning field:

> …the definition of economic development depends upon whom you ask and why. For some practitioners, it is the task of fueling general economic expansion. For others, it involves fostering growth in certain types of jobs and businesses targeted to the needs of a particular community and its labor force. For still others, as most planners are well aware, economic development has nothing to do with jobs or businesses-and everything to do with increasing sales tax revenue and balancing the local government's budget (Fulton & Shigley, 2005, p. 245).

While incentivizing large big-box retail corporations may equate to economic development to some within a planning department, such development can cannibalize off of local businesses, siphon financial resources away from a low-income community and further harm those living within them. This sort of unregulated development may improve land values of the surrounding area, but it can also gentrify neighborhoods, transplanting low-income community and relocating poverty as opposed to directly reducing it (Fulton & Shigley, 2005). As a result, many believe that the alternative option that has not been thoroughly explored is providing services and resources on directly on a grassroots level (Imbroscio, 1995; Simon, 2001). Such a goal can be accomplished in several ways.

2.3.1 Equitable Development

With urban community disinvestment being a factor in poverty, equitable development serves to be a solution to address this issue. According to Angela Glover Blackwell (2007), the concept of equitable development is an establishment of a connection of "the quest for full racial inclusion and participation to local, metropolitan, and regional planning and development" (p. 246). She continues, explaining the four principles of equitable development:

1. Integrate "people" and "place strategies that support community residents and place-focused efforts that stabilize the local economy through local job creation and affordable housing.

2. Reduce local and regional disparities through better coordination of the different scales of government, from the state and national level to the regional and metropolitan level. By balancing the needs of rural, suburban and urban areas, regions can become more economically competitive.
3. The promotion of “double bottom line” investments between a local business community and policymakers, planners, and antipoverty advocates. Though this, stakeholders can earn fair financial returns through a plan that balances the needs of the multiple interests that affect one community.
4. Prioritize meaningful community voice, participation, and leadership that empowers local community residents and provides them the resources and knowledge needed to directly address issues affecting them.

Melvin Oliver and Thomas Shapiro write of the importance of regional solutions in alleviating poverty in low-income and minority communities:

> Regional solutions would directly attack racial segregation, isolation from jobs, and poor schools. If inner-city communities increase the economic and racial diversity of their communities, create economic opportunities for low-income residents to connect to the job-rich suburbs, and create a functioning and attractive public school system, the value of housing assets would likely increase, helping reduce the insidious processes that thwart the development of wealth among black inner-city households (Oliver & Shapiro, 2007, p. 82).

The front-lines of addressing poverty fall within the planner’s jurisdiction, from a neighborhood-wide scale, to the city and regional-wide scales, as land use planning plays a key role in drawing reinvestment back into distressed communities (Fulton & Shigley, 2005) . Planning can coordinate efforts to improve transportation access to jobs, increasing opportunities for the poor, and ensure that jobs entering the area will sustain a community in the long-term. (Blackwell, 2007). Through equitable development, planners create solutions that will preserve

jobs and stabilize economies troubled by recession, poverty, and disinvestment. Because of this, equitable development could be considered one of the primary toolkits in alleviating poverty.

2.3.2 Promoting Small Business and Enterprise Development

Small businesses are traditionally seen as the most powerful generators of jobs in the American economy (Baily, Dynan & Elliott, 2010). This is the case for several reasons. First, small businesses not only require a variety of support businesses, but are linked to the local economy, further enhancing local economic development by continually recycling financial resources back into the community, as opposed to having profits sent back to a corporate headquarters in another area (Imbroscio, 1995). Small business creation could not only provide more jobs to disinvested communities, but also address the reoccurring issue of the lack of necessary goods and services in such communities. One of the main inhibitors to the creation of small businesses is the lack of access to the necessary financial resources and directly addressing that problem could be crucial in improving impoverished communities.

2.3.3 Improving Access to Financial Products in Disinvested Areas

As equitable development is a key concept in addressing poverty, a significant obstacle to this is the financial services mismatch. Promoting the poor's safer access to credit can allow for grassroots reinvestment that addresses what all federal anti-poverty programs have inadequately done: applying policies that assure access to capital and credit (Squires, 1992; Simon, 2001; Baily, Dynan, & Elliott, 2010). Muhummad Yunus also finds great importance in providing access to credit to the poor. In his book, *Banker to the Poor*, Yunus (2003) writes:

> Worst of all, economists have failed to understand the social power of credit. In economic theory, credit is seen merely as a means with which to lubricate the wheels of trade, commerce, and industry. In reality, credit creates economic power, which quickly translates into social power. When credit institutions and banks make rules that favor a distinct section of the population, that section

> increases in both its economic and social status. In both rich and poor countries alike, credit institutions have favored the rich and in so doing have pronounced a death sentence on the poor (p. 150).

While some economic experts argue for solutions from a trickle-down economics understanding, such as corporate tax cuts, facilitating direct access to financing products for the poor would empower local enterprise and directly sustain the economic vitality of disinvested communities. This occurs through the maintenance of a strong circulation of money within the community as opposed to a significant portion of revenue generated being taken out into a corporate headquarters in another region (Imbroscio, 1995). The concept of grassroots reinvestment varies from allowing low-income residents the opportunity in owning equity in real-estate projects through community development corporations (also known as “Resident Ownership Mechanisms”) as well as enabling safer access to credit and mortgages to promote small businesses (Daneker & Geisler, 2000). One of the most promising of innovations in addressing this problem is microfinancing.

2.4 Definition of Microfinancing

Microfinancing is the concept of providing access to small loans to individuals who otherwise do not have access to such financial services to pursue entrepreneurial endeavors and become self-employed. Many financial institutions typically view the poor as the most risky to lend to, as they are unable to provide the required items needed to obtain loans in the first place, such as valid proof of identification and collateral just in case the individual is unable to pay off the loan. Muhummad Yunus (2007), the world-renowned father of microfinancing, explains the consequences of such practices:

> Unfettered markets in their current form are not meant to solve social problems and instead may actually exacerbate poverty, disease, pollution, corruption, crime, and inequality (p. 5).

Yunus (2007) continues by explaining that the concept of Capitalism that mainstream financial institutions are founded upon is not yet completely developed:

> Our economic theory [Capitalism] has created a one-dimensional world peopled by those who devote themselves to the game of free-market competition, in which victory is measured purely by profit. And since we are persuaded by the theory that the pursuit of profit is the best way to bring happiness to humankind, we enthusiastically imitate the theory, striving to transform ourselves into one-dimensional human beings. Instead of theory imitating reality, we force reality to imitate theory (p. 18).

Yunus (2003) believes there should be more to capitalism than maximizing profit and by improving access to businesses that look to do otherwise can be crucial in improving impoverished communities:

> The shortcomings of the core economic theories remain unchallenged. Microeconomic theory, for example, which plays a central role in the analytical framework of economics, is incomplete. It views individual human beings as either consumers or laborers and essentially ignores their potential as self-employed individuals. This theoretical dichotomy between entrepreneurs and laborers disregards the creativity and ingenuity of each human being and considers widespread self-employment in Third World countries [as well as low-income communities] as a symptom of underdevelopment (p. 150).

Yunus believes that a result of a majority that is able to sustain themselves adequately with the current understanding of the capitalist economy largely ignores those who are often left out of the system. Studies conducted in 2009 reinforce microfinancing's success in alleviating poverty within developing countries that Muhummad Yunus has proclaimed:

> Data on 3,350 expired group loans in 300 Indian villages highlight that regular monitoring and audits, high repayment frequency, consumption smoothing support through rice credit, and having group savings deposited with the lender all significantly increase repayment rates. Estimated magnitudes of their effects vastly exceed those of members' socio-economic characteristics. Significantly lower repayment on loans originating in externally provided grant resources suggests that stringent monitoring will be essential for these to have a sustainable impact (Deininger & Liu, 2009, p. 2).

As noted in the previous section, it is important to remember that entrepreneurial opportunities for the poor is not a singular solution to addressing all poverty-related issues. Doyle & Black (2001) explain:

> …self-employment may be one of the few viable options for the following people:
>
> - An individual struggling to find living wage employment in an economically-depressed area.
> - A non-English speaking but skilled or educated immigrant.
> - A dislocated worker affected by lay-offs.
> - A disabled person who has been constrained from finding traditional employment.
> - A minimum-wage worker, probably holding down several jobs, who sees no other chance to climb out of poverty.
> - A single mother who cannot afford reliable childcare or chooses to work from home while raising children (p. 20).

Microfinancing attempts to reevaluate the underwritings of accepted economic and poverty theory through the belief that those who are poor are poor because they simply do not try hard enough. In many developing countries, microfinancing has altered such misperceptions and the United States has an opportunity to do the same.

2.4.1 Theoretical Foundations: Economic Self-Reliance

Philosophical beliefs that support the concept of microfinancing parallel a new theory of economics, called *Economic Self-Reliance*. *Economic Self-Reliance* is a concept that adds a new dimension to economics that evaluates an individual's worth beyond that of simply a source of economic capital for a business entity. In the article, *What is Economic Self-Reliance?*, Paul Godfrey writes that Economic Self-Reliance is "an individual's ability to *garner* and *hold* economic resources in excess of their basic needs" (Godfrey, 2008, p. 4). He explains the importance of the concept:

> More important than its insurance value, ESR [economic self-reliance] provides a solid platform from which people can develop and reach their full human potential. Once people possess a sustainable surplus, they can turn their attention to the pursuit that psychologist Abraham Maslow termed *self-actualization*; developing and expressing talents, skills, emotions, and values to the fullest extent. It's hard to reach our full potential when we are worried about our next meal (Godfrey, 2008, p. 5).

In economic self-reliance, an individual's worth is made up of four sources of capital: Economic Capital, Human Capital, Institutional Capital, and Social Capital.

Institutional Capital represents the "tangible, societal-based resources and is the sum total of the macrosocial resources available to an individual" (Godfrey, 2008, p. 5). This category includes both geographic elements, such as location of transportation hubs and telecommunication infrastructure, and systemic elements, such as government regulation, societal beliefs, and any other traditions that affect economic activity (Godfrey, 2008).

Social Capital is "the sum of total resources available to an individual by virtue of the strength of relationships between an individual and other social units" (Godfrey, 2008, p. 6). It is divided up between network and membership resources, with network resources meaning familial relationships (nuclear and extended) and membership resources meaning affiliations with organizations of any sort, such as religious, community, and educational groups (Godfrey, 2008).

Economic capital is comprised of the individual assets identified in traditional economic theory. Economic capital is divided up by liquid assets, such as cash, savings accounts, and bonds, and physical assets, such as real estate property, automobiles, and personal belongings (Godfrey, 2008).

Human capital comprises of the most intangible elements out of all four forms of capital. Godfrey (2008) explains:

> Human capital is the sum total of attitudes, cognitive abilities, and deployable skills possessed by an individual. Human capital can be described as what is in an individual's head (knowledge), hands (skills), and heart (attitudes). Human capital is represented by knowledge and skill and attitude (p. 7).

These types of capital are further divided up into categories: the individual-social and the tangible-intangible continuums.

Table 1. **The Four Types of ESR Capital**

	Institutional Capital	Social Capital	Economic Capital	Human Capital
Realm of activity	Social Group	Social Group	Individual	Individual
Type of resource	Tangible	Intangible	Tangible	Intangible
Definition	The system you live in	The relationships you have	The things in your wallet	The thoughts and abilities in your head, heart, and hands
Elements	Physical (roads, telephones, laws)	Network (family, friends, professional, acquaintances)	Liquid (cash, investments, insurance)	Knowledge (education, training)
	Systemic (government, education, religious beliefs)	Membership (ethnic, religious groups, hobbies)	Physical (housing, food, autos, fuel)	Attitudes (perseverance, responsibility)
Enhancers	Political stability, market orientation	Nurturing families, civil society organization	Wages in excess of survival, access to financial services	Health systems, non-subsistence culture and values
Inhibitors	Corruption, incentive-destroying safety nets	Parasitic families, physical distance, tribal animosity	Debt, unemployment, low wages, instability	Discrimination, lack of resource husbandry, low motivation

Godfrey (2008) continues to explain the importance of economic self-reliance in reevaluating variables that traditional economic development has failed to adequately address:

> The four types of capital build a holistic picture of development-one that is multi-level (from individuals to institutions), multi-type (considering both tangible and intangible resources), and multi-disciplinary (combining the best of economic, psychological, sociological, legal, political, and theological thinking). Poverty and its related evils are a complex problem; the four types of capital present a complex model from which to view these problems…ESR differs from traditional development economics because it deals explicitly with the need for individuals (and families, social groups, and nations) to *hold* resources, not just garner them (p. 7).

From both planning and poverty policy perspectives, economic self-reliance can create a clearer understanding of what is needed to address the myriad of factors that create poverty and develop more effective solutions for the inadequacies found. Microfinancing can be considered a poverty solution which creates a financial market (an element of institutional capital) that solely addresses the poor’s lack of access to financial services (an element of economic capital). Other manifestations of microfinancing also provide the job training (an element of institutional capital) and social networks (an element of social capital) that supplement and support low-income individuals (human capital) in their entrepreneurial endeavors.

Muhummad Yunus’ (2007) philosophical beliefs align with the concept of economic self-reliance:

> People are not one-dimensional entities; they are excitingly multi-dimensional. Their emotions, beliefs, priorities, and behavior patterns can best be compared to the millions of shades we can produce from the three primary colors. Even the most famous capitalists share a wide range of interests and drives, which is why tycoons from Andrew Carnegie and the Rockefellers to Bill Gates have ultimately turned away from the game of profit to focus on higher objectives. The presence of our multi-dimensional personalities means that not every business should be bound to serve the single objective of profit maximization. And this is where the concept of social business comes in (p. 19).

2.4.2 Theoretical Foundation: Social Business

In addition to championing the concept of microfinancing, Yunus presents his expanded understanding of capitalism through a primary division of business entities: traditional profit-maximizing businesses and a new category, social businesses. Yunus (2007) explains that a social business is a "non-loss, non-dividend business" and conducts "pure" work typical of non-profit organizations, but does so in a financially sustainable manner like a profit-maximizing business:

> A social business is not a charity. It is a business in every sense. It has to recover its full costs while achieving its social objective. When you are running a business, you think differently and work differently than when you are running a charity. And this makes all the difference in defining social business and its impact on society…As long as it [non-profit organizations] had to rely on subsidies and donations to cover its losses, such an organization remains in the category of a charity. But once a project achieves full cost recovery, on a sustained basis, it graduates into another world-the world of business. Only then can it be called a social business…a social business is designed and operated as a business enterprise, with products, services, customers, markets, expenses, and revenues-but with the profit-maximization principle replaced by the social-benefit principle. Rather than seeking to amass the highest possible level of financial profit to be enjoyed by the investors, the social business seeks to achieve a social objective (p. 23-24).

The concept of a social business becomes a careful balance between the liberal preference of addressing social justice issues and the conservative confidence in the free market addressing economic inefficiencies, a balance never attempted in the federal anti-poverty programs of the past. For philanthropists and investors looking to donate to a cause that effectively benefits lives, social businesses can provide the confidence and assurance that their funds are utilized as effectively as possible. Yunus (2007) explains:

> …investing in a social business has several enormous differences from philanthropy. First, the business one creates with social business is self-sustaining. There is no need to pump in money every year. It is self-propelling, self-perpetuating, and self-expanding. Once it is set up, it continues to grow on its own. You get more social benefits for your money. Second, investors in a social business get their money back. They can reinvest in the same or a different social business. This way, the same money can bring more social benefits. Since it is a business, businesspeople will find this as an exciting opportunity not only to bring money to social business but to leverage their own business skills and creativity to solve social problems. Not only does the investor get his money back, he still remains an owner of the company and decides its future course of action. That's a very exciting prospect on its own (p. 25).

The ideal microfinancing institution combines the understanding of a poor individual's economic self-reliance to lift themselves out of poverty through entrepreneurial opportunity and the concept of the financially-sustainable social business to ensure that the quality and handling of social objectives are the highest priority without wasting scarce financial resources. With this combination, microfinancing institutions can not only correct an economic mechanism that contributes to poverty, but it can do so without having a regular dependence on subsidies, a historic inhibitor of impact affecting the anti-poverty programs of the past and present.

2.4.3 Challenges to Microfinancing

Microfinancing has been successfully alleviating poverty in developing countries such as Bangladesh, the Philippines, and South Africa. However, this lending model is still so relatively new in developed countries such as the United States that there lie multiple challenges that will test its' effectiveness in alleviating poverty in the long run. Issues arise when translating microfinancing efforts to a developed country because the standards of living are much higher. Because of this, individuals in poverty require both larger loans to start and a better understanding of a complex, competitive economic market in order to ensure their entrepreneurial endeavors can sustain in the long-term. As a result, the successful microfinancing programs not only include access to credit, but also a broader range of services that fall under the different categories within

the theory of economic self-reliance. The addition of these costs makes microfinancing in the United States difficult to alleviate poverty in a cost-effective manner (Schreiner & Morduch, 2001). In the article, *Replicating Microfinance in the United States: Opportunities and Challenges*, Schreiner & Morduch (2001) explain other hardships of recreating microfinancing in the United States:

1. While a serious constraint may be the acquiring of start-up capital, the more difficult task to take into account is to understand and maintain cost-effectiveness. This includes how to most effectively use subsidies and other acquired financial resources while maintaining the greatest positive impact on clients' livelihoods.
2. Although there are studies showing the effectiveness in alleviating poverty through microfinancing, there is still much debate about how effective the lending model really is. As a result, there is much need for more effective performance indicators. By addressing this concern the effectiveness of microfinancing would increase by identifying the weaknesses in existing and future institutions and provide experts the information needed to improve upon them.
3. Monitoring of clients to ensure that businesses created by low-income entrepreneurs can become successful (p. 18-29).

Many of these challenges address the structural concerns of such lending institutions; if handled effectively, this would not only remove microfinancing's long-term dependence on donors but also attract more philanthropic donor and investor money, immediate challenges in establishing a microfinancing institution.

As previously mentioned, the challenge of financial-soundness must be balanced with another: maintaining an effective poverty-alleviating lending program. The effectiveness of such a program is based on two factors: impact and outreach. Impact refers to the actual improvement in a client's life produced by microfinance activities and outreach refers to the number of clients reached and the level of poverty of these clients. The microfinancing institution must balance out these factors of poverty-alleviation all the while maintaining financial sustainability in order for it to be considered a worthwhile poverty-alleviating program (Schreiner & Morduch, 2001).

2.4.4 Opportunities for Microfinancing: Community Benefits Agreement

As noted in the previous section, a significant obstruction to establishing a microfinancing institution is finding the necessary start-up capital. There lies an opportunity to surpass this obstacle through the same ongoing development patterns that have contributed to poverty through a Community Benefits Agreement. A Community Benefits Agreement is a private contract between a developer and the community, in which a community supports a proposed development in exchange for negotiated items which will ensure a benefit the community (Lavine, 2008). Negotiated items can address issues affecting a particular community, ranging from a living-wage clause for workers to local-hire to ensure that local residents looking for jobs can directly benefit from new development through increased job opportunities and the quality of such jobs. Start-up capital or even the establishment of a microfinancing institution can also be added as an item for a community benefits agreement. Blackwell (2007) writes of the importance of a community benefits agreement in the concept of equitable development:

> CBAs [community benefits agreements] are based on the premise that public investments must yield defined public benefits, including good jobs, affordable housing, green space, and child care…CBAs follow the equitable development principle of the double bottom line and show planners, policymakers, and economic development officials the possibilities for achieving not only financial returns for investors, but meaningful, sustaining benefits for local residents (p. 251-252).

Blackwell (2007) continues, writing about the first successful community benefits agreement and the improvements it brought to Los Angeles:

> One of the most comprehensive CBAs to date was negotiated by the Figueroa Corridor Coalition for Economic Justice around the development of the downtown Los Angeles Sports and Entertainment District (anchored by the Staples Center); the agreement included living-wage jobs, low hiring requirements, job training, a 20 percent set-aside of affordable housing, and a commitment of $1 million for community parks and recreation in exchange for organized community support of the project (p. 252).

Community benefits agreements allow low-income communities the opportunity to face developers head-on and negotiate items that would constructively benefit their neighborhood as opposed to further isolate and harm them. These items can include a donation of funds needed to establish a microfinancing institution or items needed to address the poverty-related issues that affect a particular community.

3. Case Study Review

In this section, three case studies of microfinancing programs currently in operation in the United States were selected to be evaluated on their abilities as a poverty-alleviating program. The programs selected were the Southern Good Faith Fund, ACCION USA, and Grameen America. After a description of the programs, their services provided will be described in further detail. The criteria used to evaluate the microfinancing programs will then be discussed, with each program's effects being assessed using criteria found in the article, *Performance Measures for Microenterprise in the United States*. Each program will then be reviewed based on their impacts on poverty, outreach to those in poverty, and program cost-effectiveness, referred to as financial sustainability in later sections.

3.1 Microfinancing Case Studies

The case studies to be analyzed in this section are different variants of microfinancing programs currently operating in the United States. These case studies have been selected for their varying scales of operation and approaches to alleviating poverty through increased access to financial services.

Some meet the criteria of being an "ideal", financially self-sustaining microfinancing institution and other institutions that partially meet such criteria for a myriad of organizational structural reasons. In the end, these microfinancing case studies all do their part to alleviate poverty with varying sets of strengths and weaknesses.

3.1.1 Description of Case Studies

3.1.1.1 Southern Good Faith Fund

Established in 1988, the Southern Good Faith Fund is a nonprofit organization affiliated with multiple local banking institutions and developers who share the mission of addressing issues of rural poverty in Arkansas and Mississippi. It is the first US microfinancing institution and was based on Muhummad Yunus' Grameen model. Southern Good Faith Fund is made up of three banking institutions: Southern Bancorp Arkansas, Southern Bancorp Mississippi, and Southern Bancorp National, as well as three developers: Southern Bancorp CDC, Southern Good Faith Fund, and Southern Bancorp Capital Partners.

By working together and coupling their services to nonprofit affiliates who share the same mission, the Southern Good Faith Fund provides community and economic development services to low-income rural communities. Initially starting as an entrepreneurial microfinancing program, the Southern Good Faith Fund slowly evolved and expanded their services. The organization explains on their website:

> In the mid 1990s, we realized that business ownership was not the solution for everyone; many residents needed increased skills to compete for jobs that could support their families. Federal welfare reform legislation also inspired our expansion into workforce development and our decision to start a policy program to increase the impact of our mission beyond direct service. Finally, toward the late 1990s, we expanded our strategies for helping low-income families reach financial security and growth by incorporating a focus on asset development (southerngff.org, 2009).

The Southern Good Faith Fund operates as its own organization, specializing in efforts to address:

- Asset Building
- Workforce Development

- Entrepreneurial Opportunities
- Public Policy

Since its' creation in 1988, the Southern Good Faith Fund has successfully lent out $5.3 million to low-income individuals, creating and retaining 1,330 jobs through 730 separate business ventures. Low-income individuals who have opened savings accounts through the Southern Good Faith Fund have saved a combined $1.7 million in interest.

The Southern Good Faith Fund was chosen because it was one of the first microfinancing programs created in the United States and the first United States microfinancing attempt by Muhummad Yunus, considered to be the father of microfinancing (Yunus, 2007). The program is a public-private collaboration among political organizations, major developers and banking institutions in the Arkansas and Missouri area, making the Southern Good Faith Fund the only government-backed program among the three case studies. The program also deals primarily with poverty in rural communities, historically known to have disinvestment issues throughout the 20th century.

3.1.1.2 ACCION USA

Established in 1961, ACCION is a non-profit organization in South America that specializes in providing micro-loans and technical assistance to those unable to attain loans through traditional means. ACCION USA is the extension of ACCION in the United States, with their initial pilot program in Brooklyn, NY. Based on its success, expanded and created direct lending offices in Georgia, New England, and Florida between 2000 and 2003. The organization continued to expand, establishing offices in Texas, Louisiana, New Mexico, Colorado, Arizona, Chicago, and San Diego and becoming one of the leading microfinancing

programs in the United States. In addition to providing microloans in their office locations throughout the United States, ACCION USA created an online loan application to extend their reach beyond their physical offices as of 2006. Loan sizes average from $500 to $50,000, with a $30,000 loan maximum for start-up businesses with less than six months of being in operation (Accionusa.org, 2010).

Since 1991, ACCION USA has lent over $117 million (18,730 loans made) across 46 states, supporting 23,000 US small businesses, increasing family income by 18% and maintaining a business survival rate of 97% for established businesses and 90% for start-up businesses (Accionusa.org, 2010).

ACCION USA was chosen because of the scale of its service area in the United States, the largest of the three microfinancing case studies. It is also a United States offshoot of one of the more well-established microfinancing programs around the world, ACCION.

3.1.1.3 Grameen America

Grameen America is a nonprofit organization in Jackson Heights, New York that provides loans, savings programs, credit establishment and other financial services to entrepreneurs living below the poverty line in the United States. Grameen America utilizes a Group-Lending model. Instead of requiring collateral, a microloan requires prospective clients to form or join teams of five called “Groups” which are meant to be the support structure by which these clients help and learn from each other in order to ensure the loans are repaid. Three to six of these Groups then combine to create “Centers”, which meet on a weekly basis to share best-practices and training on financial issues such as credit scores and savings. Each week, the borrower repays a small portion of the loan, including 15% interest, as well as a small deposit into a savings account.

Grameen America began as a non-profit organization, accepting donations, grants and long-term loans to function. However, the organization strives to eventually become a self-sustaining cause-driven social business, where all profits are immediately invested back into improving the services of the institution. Grameen America was chosen for its goal of becoming a financially self-sustaining microfinancing program. It is also an offshoot of one of the most famous microfinancing programs, Grameen Bank, founded by Muhummad Yunus.

3.1.2 Criteria for Evaluation

The criteria utilized to evaluate the microfinancing case studies are based on the methodology recommended in the article, *Performance Measure for Microenterprise in the United States*. The criteria are divided up by three primary categories: Outreach, Impact, and Sustainability. A program that fails to reach those who need its' help the most fails as a program itself. Because of this, evaluating outreach is important. Outreach determines the program's ability to reach low-income individuals above and below the federal poverty line and evaluates the number of clientele reached, as well as the level of poverty the program addresses.

A primary criticism of poverty policy during President Reagan's War on Welfare was that most poverty-alleviating programs do not promote upward mobility out of poverty, but rather dependence. Because of this, evaluating the impact of each program is a necessary criteria. Impact determines the individual client's improvement in financial resources; this criterion evaluates the financial resources now available to clientele and the program's abilities in improving the financial resources of clientele.

A major criticism of the War on Poverty and welfare programs that resulted from it was that it was too resource-heavy. Sustainability evaluates the program's ability to be cost-effective and this section includes an analysis of the lending payback rate from providing loans to risky

clients as well as the program's ability to balance quality of service and stay within budget constraints.

It is important to note that Doyle & Black (2001) and Shreiner & Morduch (2001) both agree that the goals of financial sustainability and maximum impact/outreach are conflicting criteria, as the more a program emphasizes impact and outreach, the more difficult it is to maintain financial sustainability. It is also agreed that sustainability is extremely difficult to achieve and "would be unrealistic and potentially damaging to present microfinance in the United States as a panacea that achieves social improvement at no cost" (Doyle & Black, 2001, p. 42). However, by striving for financial sustainability, innovations in reducing costs can further aid in improving impact and outreach to clients in need (Doyle & Black, 2001; Shreiner & Morduch, 2001). Doyle & Black (2001) continue by stating that at the least, maintaining a high loan repayment rate is important in order to be considered a "worthwhile development tool" by policymakers and donors, because of the added difficulty in determining who is a "good risk" and a "bad risk" (p. 39). Because of this, looking into each program's financial sustainability is important in evaluation.

This section will evaluate the effectiveness of each case study based on these criteria. Because domestic microfinancing institutions are still a relatively new concept in the United States, newer programs are less likely to have thorough impact reports on their clientele than older, more established programs. If information required for evaluation is unavailable, it will be discussed. Below is the list of criteria:

1. Services provided and the categories of Economic Self-Reliance (See Theoretical Foundations: Economic Self-Reliance) the microfinancing institution's services fall under (Institutional, Social, Economic, Human).
2. Outreach:
    a. How many clients has the program reached?
    b. What is the level of poverty of the clients that the microfinancing institution attempts to help? (Above, at, or below the poverty line)
3. Impact on the improvement in the livelihoods of clients served.
    a. How much more income do clients receive after going through the program in comparison to before?
    b. What financial products do clientele now have access to?
4. Sustainability:
    a. Is the microfinancing institution financially self-sustaining or are they dependent on subsidies?
    b. What is the lending payback rate?

3.1.3 Services Provided

In terms of Institutional Capital, ACCION USA has the widest service coverage, spanning 46 states across the United States. This is a result of an expanded network of offices in 14 states and utilizing the internet to provide financial services electronically to over 30 other states (accionusa.org, 2010). The Southern Good Faith Fund has a smaller service area, addressing poverty and providing financial services across all of Missouri and Arkansas (southerngff.org, 2009). However, because of the amount of collaborative efforts the Southern Good Faith Fund has with other organizations, it is the most thorough of the three case studies in

stabilizing conditions for low-income individuals (an enhancer of Institutional Capital) to improve their livelihoods. Some victories for the low-income communities served by the Southern Good Faith Fund include the banning of the payday lending industry, a predatory financial institution that has trapped borrowers in an endless loop of debt, and lobbying to increase the state minimum wage. Another collaborative effort through the Southern Good Faith Fund is the Working Poor Families Project, which works with nonprofit organizations within Arkansas and Mississippi to “identify and strengthen state policies that help working families achieve success in the labor market” (southerngff.org, 2009). Grameen America has the smallest coverage area of all three case studies, providing services on a local level in Queens, New York, Manhattan, New York, Brooklyn, New York, and Omaha, Nebraska. A Grameen America branch in San Francisco is planned to open in 2010 (grameenamerica.com, 2010).

With Social Capital, the Southern Good Faith Fund and Grameen America provide the most opportunities for establishing relationships on a social and professional scale. Both case studies are based on the Grameen Group Lending model, which require borrowers to group with other borrowers and work together to pay back loans. The amount of collaborations the Southern Good Faith Fund has with other organizations mentioned earlier also provide significant opportunities for expanding a client’s social capital on a professional and personal level (southerngff.org, 2009). Grameen America does not have extensive networking opportunities, but relies more on the Group Lending Model to help clients build trust, share advice, and help each other in maintaining loan repayments as well as having more successful businesses (grameenamerica.com, 2010). ACCION USA bolsters clientele’s social capital, holding networking and “speed-coaching” opportunities at many of their locations to help small business owners make professional connections needed to become more successful. ACCION USA also

has an online small business network to allow "clients to network with other small business owners within their community and/or industry" (accionusa.org, 2010).

All programs augment clientele's Economic Capital, with the Southern Good Faith Fund offering the most extensive amount of services to clientele through its' Business Development Center and Asset Builders program. Through these facets, the Southern Good Faith Fund helps low-income clientele pursue entrepreneurial opportunities and build financial assets by setting up Individual Development Accounts, which the Southern Good Faith Fund matches every deposited dollar of clientele at a 3:1 ratio to save up for large investments, such as homeownership and schooling. In addition to this, the Southern Good Faith Fund provides free IRS-sponsored tax filing services for families and individuals earning under $49,000 (southerngff.org, 2009). The Southern Good Faith Fund has also enhanced its clientele's economic capital through its successful lobbying for an increase in the minimum wage. Both ACCION USA and Grameen America are more specific in solely providing small loans. ACCION USA provides loans for existing and start-up businesses, as well as credit-building loans for those who do not meet the requirements for business loans (accionusa.org, 2010). Grameen America only provides small loans for entrepreneurs (grameenamerica.com, 2009).

All programs are also extensive in augmenting human capital, with workshops and classes helping to supplement clientele's money management abilities. ACCION USA provides resources online while the Southern Good Faith Fund and Grameen America do not utilize the internet (accionusa.org, 2010). Grameen America requires borrowers to attend workshops before loans are distributed (grameenamerica.com, 2009). The Southern Good Faith Fund has an extensive Career Pathways program that provides workforce development services for clientele (southerngff.org, 2010).

3.1.4 Evaluation of Outreach

As shown in Table 2, all three microfinancing programs serve a significant portion of low-income individuals above, at, and well below the federal poverty level. Utilizing its extensive office network and the internet, ACCION USA has served the most clients through its microfinancing program, lending out 19,038 loans and supporting around 23,000 small businesses since its creation in 1991. However, ACCION USA has many requirements clientele must meet before attaining a loan, including having “a credit score of 575 or more,” being up-to-date with the payment of all bills, and not being late with rent or mortgage payments in the past 24 months (See Appendix B). Many low-income individuals who have bad credit or have trouble paying rent are then excluded from ACCION USA services. This means that while ACCION USA may reach the most clients, the microfinancing program reaches those considered to be the “working poor” who could be at risk of falling deeper into poverty, as opposed to those who are below and near the federal poverty line. This means that ACCION USA loans would aid low-income small business owners looking to expand or support themselves through ACCION USA resources.

Table 2. **Outreach of Microfinancing Case Studies**

	Southern Good Faith Fund	ACCION USA	Grameen America
How many clients has the program reached?	1999-2007, Created/Maintained 1,337 jobs. 511 businesses established, expanded, or retained in two states.	Since 1991, 19,068 loans provided. 2.4 jobs created/maintained per loan. Over 45,000 jobs created or maintained throughout 46 states.	Since 2008, 1,350 borrowers in Queens, NY branch. No available information on outreach of the other three branches.
Scale of service	Two states: Arkansas and Missouri	46 states	Four branches: Omaha, Nebraska; Queens, New York; Brooklyn, New York and Manhattan, New York
What is the level of poverty of clients?	Above/Below federal poverty line	Above federal poverty line	Above/Below federal poverty line

On the other hand, Grameen America works on a much smaller scale local level around its four branches. The Queens, New York branch, the first Grameen America branch opened in 2008, has served over 1,350, with women making up 97% of clients. A majority of Grameen America clients are single mothers and recent immigrants to the United States, two historically poor demographics (grameenamerica.com, 2009). Because the other three branches had just recently opened, there is no information regarding clients served and loans provided in these branches.

Grameen America has less scrutinized requirements to determine clients, such as joining a five-member group, living near other members of your group and making a small deposit into savings accounts during the program. The program does not require any collateral in exchange for a loan (grameenamerica.com, 2009). This means that Grameen America attempts to reach those below the federal poverty level. While Grameen America may have the smallest scale in providing financial services of the three case studies, it is also the most locally concentrated

program. Grameen America's small concentrated scope could allow it to be successful in providing direct entrepreneurial resources in disinvested portions of a community since its requirements and coverage area center around locality. Grameen America advertises itself as versatile and applicable in any location, so long as the necessary start-up capital of $2 million (totaling to $6 million within a five year period) is provided to create a branch.

Being the oldest of the three programs, the Southern Good Faith Fund has helped far more low-income individuals throughout the years, but not at the scale that ACCION USA has. Since 1999, 6,329 clients were served by the Business Development Program, with 511 businesses being created, expanded, or retained (Southern Good Faith Fund, 2007). Their Career Pathways program graduated 930 individuals between 1997 and 2007 (Southern Good Faith Fund, 2007). The Asset Builders program has also helped 785 clients create Individual Development Accounts in 2007 (Southern Good Faith Fund, 2007). The Southern Good Faith Fund's service coverage spans two states and is the only program that specifically addresses rural poverty (See Appendix B).

The Southern Good Faith Fund does not have many requirements in order to receive financial resources. Impact reports for the Asset Builders program state that 81% of clients had a monthly household income of less than $2,000 (Southern Good Faith Fund, 2007). Impact reports for the Business Development Center state that 18% of clients had gross incomes of less than $10,000, 33% had gross incomes between $10,000 and $25,000, and 31% had gross incomes between $26,000 and $50,000 (Southern Good Faith Fund, 2007). Impact reports for the Career Builders program state that 63% of clients in the Career Builders program had yearly incomes under $5,000 and 68% of clients were Food Stamp recipients (Southern Good Faith

Fund, 2007). This information suggests that the program serves those below and above the poverty line.

All three programs are successful in their attempts to outreach to low-income individuals in need of financial resources, but cater to specific areas of poverty. ACCION USA provides resources across 46 states to the working poor above the poverty line looking to expand or create a business. The Southern Good Faith Fund supports low-income individuals of the rural communities below and above the poverty line in Arkansas and Missouri. Grameen America directs its resources to low-income individuals below and above the federal poverty line on a local scale near its lending offices.

3.1.5 Evaluation of Impact

All three programs are meant to improve the livelihoods of low-income individuals in different ways, shown in Table 3. The Southern good Faith Fund offers the most extensive range of resources to low-income individuals out of the three case studies. Given the wide array of resources available to clients within its Business Development Center, Asset Builders, and Career Pathways programs, the Southern Good Faith Fund has been able to significantly improve the livelihoods of its clients. With the free tax-filing service that it provides, the Southern Good Faith Fund enabled its clients to receive back an average of $706 in Earned Income Tax Credits and $1,443 in state and federal tax refunds (Southern Good Faith Fund, 2009). This would add a monthly average of $178 of additional income to each household. Impact reports of the Southern Good Faith Fund's Business Development Center show that the incomes of clients after the program have improved by an average of 10% (Southern Good Faith Fund, 2007). Impact reports of the Southern Good Faith Fund's Career Pathways program show that between 2001 and 2007, an average of 83% of all graduates placed in jobs or were on their way to the next step

on their career pathway. The same report also shows that 75% of graduates who placed in jobs were still employed after six months (Southern Good Faith Fund, 2007). This suggests that either graduates continued augmenting their human capital through continuing education or were considering starting a small business with their increased knowledge. The Southern Good Faith Fund's impact reports of 2007 on the Asset Builders program show that between 2003 and 2007, the average increase in cumulative median net worth of clients between the time of enrollment into the program and the time of asset purchase was 287% (Southern Good Faith Fund, 2007). Through the increase in human and economic capital, clients of the Southern Good Faith Fund have been able to improve their financial wellbeing.

Table 3. **Impact of Microfinancing Case Studies**

	Southern Good Faith Fund	ACCION USA	Grameen America
Financial Resources Available	Asset Builders (Savings Accounts), Business Development Center (Small Business Loans), Free tax filing services	Credit Builder Loans, Small Business Loans	Credit Builder Loans, Small Business Loans, Savings Accounts
Educational Resources Available	Career Pathways (Workforce Development) Money Management Classes and Workshops	Online Resources Money Management and Entrepreneurial Classes and Workshops	Group-Building Workshops, Money Management and Entrepreneurial Classes
Improvement in financial assets	Avg. Increase in Cumulative Net Worth: 287% Avg. Increase in Income: 10%	Avg. Wages of Jobs Created: $9.00 Avg. Increase in Income: 6%	Not Available

ACCION USA provides a smaller set of resources small business loans, credit-builder loans, and educational resources to clients. Findings on ACCION USA's impacts show mixed results. Clients receiving ACCION USA loans have an average improved income of 6%, with an average business survival rate of 98% for clients with existing businesses and 89% for clients whose businesses were established with a small business loan. Also, the median wage of jobs

created or maintained by ACCION USA microloans are $9.00 an hour, 24% higher than the federal hourly minimum wage of 2009. However, 33% of clients experienced an increase in sales revenue, while 41% noted a decrease in revenue (ACCION USA, 2009). This decrease may be attributed to the economic recession moreso than the ineffectiveness of the program. While the jobs provided by ACCION USA microloans enabled employees of clients to receive higher wages than the federal minimum wage and provide more income, the sales revenue of businesses with ACCION USA loans have had mixed results.

Grameen America offers a set of resources for clients similar to ACCION USA. All borrowers begin with a Credit Establishment Loan to help develop a good credit history and undergo a five-day group training period to develop money management and group-building skills that the Group Lending Model utilizes. They are also required to open individual savings accounts that require a minimum weekly deposit of $5. (grameenamerica.com, 2009). While Grameen America has not been established long enough to have long-term impact reports on clients, a Reuters article on the microfinancing program states that within a year and a half of being established, clients have altogether "deposited savings of more than $350,000" (See Appendix C).

The access to financial products, along with the increased knowledge and management skills gained from financial workshops and classes allow small business ventures to become more successful. All three programs have regular classes and workshops to help their clients. However, ACCION USA provides online resources and webinars, making them more readily available than the resources made available by the Southern Good Faith Fund and Grameen America. However, the fact that internet access is more a luxury than a necessity to low-income households suggests that ACCION USA's online resources may not be accessible by low-income

households. All three programs provide resources to clients to improve their money management skills, credit scores, and financial net worth to enable them to "graduate" and borrow from mainstream financial institutions. This understanding breaks the notion that poor individuals are not worthy of credit and other financial services as well as the conservative criticism of poverty policy creating dependency.

3.1.6 Evaluation of Sustainability

Given the varying organizational structures of each program, the microfinancing programs have different degrees of success in being financially-sustainable. Because the Southern Good Faith Fund's Asset Builders program promotes client savings by matching their deposits on a 3:1 ratio without interest, it does not have a loan repayment rate. However, ACCION USA maintains a loan repayment rate of 89% (accionusa.org, 2010). Grameen America maintains the highest loan repayment rate, ranging from 97%-99% according to multiple sources (Reuters.com, 2010; Time.com, 2009).

Table 4. **Sustainability of Microfinancing Case Studies**

	Southern Good Faith Fund	ACCION USA	Grameen America
Loan Repayment Rate	Not Available	89%	97-99%
Dependant on Subsidies?	Yes	Yes	Yes, only for start-up capital
Financially Sustainable?	No	No	Yes

Shown in Table 4, the Southern Good Faith Fund and ACCION USA are still largely dependent on subsidies and donations. This is mainly because of the large overhead needed from the structure of the programs: The Southern Good Faith Fund and ACCION USA work with mainstream banking institutions, which require much more money for loan officers and other

employees. According to the 2005-2006 Annual Impact Report, the Southern Good Faith Fund decreased in financial assets from $1.9 million in 2005 to $1.6 million in 2006 (Southern Good Faith Fund, 2007). ACCION USA's operational expenses exceeded revenues by $100,000 from 2006 to 2007 (ACCION USA, 2007). Grameen America is the closest in being a financially-sound lending model, with the highest loan repayment rate of the three case studies and its emphasis on being a social business that recycles profits back into the program to improve service quality. While there are no financial reports that provide evidence for this claim, news articles from Time and Reuters report Grameen America as financially-sound. Much of this reason lies in the replacement of loan officers with the self-monitoring Group Lending model, which cuts down significantly on overhead costs (Reuters.com, 2010; Time.com, 2009).

It is important to again note that financial-sustainability is extremely difficult to achieve and thus, not crucial in determining the effectiveness of the program. However, because innovations in financial-efficiency is crucial in improving quality of service and cost-effective poverty-alleviating programs are more attractive to policymakers than that of the current status-quo, it is important to evaluate financial sustainability in order to improve upon current methods of microfinancing Given the lack of extensive impact reports and findings on microfinancing institutions, all microfinancing programs must be observed for a much longer period of time in order to better determine their financial sustainability.

4. Connections to Planning and Conclusion

Planners traditionally have multiple definitions of economic development, which makes it difficult to address the issues of poverty. Fulton & Shigley (2005) explain:

> For some practitioners, it is the task of fueling general economic expansion. For others, it involves fostering growth in certain types of jobs and businesses targeted to the needs of a particular community and its labor force. For still others, as most planners are well aware, economic development has nothing to do with jobs or businesses-and everything to do with increasing sales tax revenue and balancing the local government's budget (p. 245).

Planners generally have one of two goals in addressing economic development:

1. Drawing investment into distressed urban or rural areas that otherwise would not thrive.
2. Increasing the city's tax revenue, rather than jobs or growth (Fulton & Shigley, 2005, p. 248).

Whether as a result of political pressure from development interests or a belief in traditional economic development strategies, a typical strategy for planners is subsidizing corporations and big-box retail to develop an area. While this top-down may increase a city's tax revenue from sales tax and save money on infrastructure costs, such development can sometimes harming a community more than helping. For example, big-box retail is notorious for taking business away from "mom and pop" shops and a significant percentage of profits generated are taken away to another city where the corporate headquarters reside (Imbroscio, 1995). In the long run, the increased tax revenue from such development can be negated through cannibalization of surrounding businesses, which could lead to additional problems of foreclosures and lowered property values. Microfinancing can not only aid in fostering economic development and addressing spatial mismatch problems in disinvested communities, but it can also alleviate poverty through workforce development, job creation and small business growth for those who need it most: the low-income individuals living in such communities.

As an alternative to the traditional top-down economic development strategies, planners can utilize microfinancing as a tool itself in alleviating-poverty from a grassroots approach. In comparison to traditional approaches, microfinancing addresses economic development and infrastructure finance through improved access to financial products in low-income communities. Planners can establish tax credits and permit streamlining incentives for clients of microfinancing institutions who want to establish a small business in a low-income area affected by disinvestment. For example, a community redevelopment agency could collaborate with an established microfinancing program to streamline permits for small businesses that open in disinvested areas. Small businesses that receive microloans to invest in façade improvements could be given additional subsidies through a community redevelopment agency's façade improvement program to augment potential growth and improvement of property values. A microfinancing program that requires locality and group-lending of its clients, like Grameen America, can work with a community redevelopment agency to purchase and establish a small business incubator, which could improve the survival rate of microfinancing entrepreneurs. The potential solutions within microfinancing to address poverty falls directly in line with communicative planning theory, where this type of planner can "address power imbalance of access, information, class, and expertise" which has manipulated planning decisions, isolating low-income communities, and transferring poverty somewhere else as opposed to directly correcting the mechanisms that cause it in the first place (Brooks, 2002).

Equitable development strategies have been a reoccurring ideal in planning theory discussions, but rarely explored by planners in reality. With the innovation of the community benefits agreement explored earlier, empowered communities can negotiate for improved access to financial resources through the establishment of a microfinancing institution, such as Grameen

America. Through this, grassroots community reinvestment is more achievable than ever. This strategy correlates with communicative planning and can address dilemmas brought up in postmodernist planning discussions. In the book, *Planning Theory for Practicioners,* Michael Brooks (2002) quotes Judith Innes to explain postmodern planning's dilemmas to address in a rapidly changing world:

> The world of the late 20th century is characterized by fragmented power; distrust of government and experts; multiple, seemingly incommensurable discourses; and a new tribalism, where groups celebrate their differences. All over the world, new processes and new institutions are being invented to deal more effectively with the future. Technological change and globalization of economies require professionals who can both see the big picture and creatively respond to a rapidly changing context. This "post-modern" planning involves making connections among ideas and among people; setting in motion joint learning; coordinating among interests and players; building social, intellectual and political capital; and finding new ways to work on the most challenging tasks…Post-modern planning confronts the challenge of continuous change, not by creating blueprints or rigid regulatory regimes, but by trying to influence its direction and preparing to meet uncertainty (p. 120).

Planners must become more creative, collaborating with those in the social sciences, economics and politics and, most importantly, with local communities to dispute preconceived notions regarding economic development if the tools to alleviate poverty are to be improved. Microfinancing reflects this collaborative processs by directly lending to those considered unworthy of financial services, challenging the mainstream lending institutions' circular fallacy that the poor are unworthy of their services because they are poor. Yunus' (2007) thoughts also correspond to this challenge:

> Poverty is a multi-dimensional phenomenon. It is about people's lives and their livelihoods. To free people from poverty, all aspects of their lives need to be addressed, from the personal level to the global level, and from the economic dimension to the political, social, technological, and psychological dimensions. These are not separate and disconnected elements but closely intertwined (p. 75).

Communicative planning techniques address complex problems by working with communities in the creation of their own new solutions, and microfinancing is such an example. Microfinancing not only allows for a cost-effective approach to addressing community disinvestment and stabilizing distressed neighborhoods, but would allow those affected by poverty to improve their livelihoods by creating their own businesses (supported by financial products they otherwise would never receive from traditional lending institutions). Microfinancing institutions, along with the grassroots community benefits agreement through which they can be negotiated, are additional tools in the planner's toolbox that provides much opportunity in addressing poverty and other related issues, such as gentrification, disinvestment, and access to services, all the while appealing to the different needs of the different stakeholders in a proposed development. These recent innovations can help planners address the increasing number of problems affecting communities that have experienced disinvestment through constructive solutions that abolish traditional approaches to solving poverty, approaches that have for so long reinforced the isolation of low-income communities and those that live in them.

Throughout the 20th century, many of the poverty-alleviating programs worked to address the effects of poverty with mixed results. The contributor to poverty left untouched was that of the financial services mismatch, which has been exacerbated throughout the 20th century by a population shift to the suburbs and disinvestment of rural and urban communities. As suburbs begin to face issues with poverty, addressing the contributors to poverty has become a priority for all communities. The financial services gap must be addressed to provide upward mobility for low-income communities. Microfinancing plays a key role in addressing the lack of access to financial services and can also bring reinvestment to low-income communities in a way that empowers low-income individuals and does not simply move the issue of poverty to another

community. As more communities look for creative ways to address poverty, microfinancing can become a crucial part of effective solutions. While microfinancing may not be the solution that addresses all forms of poverty, it is a start in the right direction in addressing the mechanisms that perpetuate it. Microfinancing is still new in its application in the United States and existing programs should be evaluated in the long-term to determine how effective they are as an economic development tool.

5. References

ACCION USA. *ACCION USA Annual Report 2007* [Data file]. Retrieved from http://www.accionusa.org/Uploads/FileManager/Annual%20Report/AR_2007.pdf

ACCION USA. *ACCION USA General Profile* [Data file]. Retrieved from http://www.accionusa.org/Uploads/FileManager/Misc/AUSA%20Profile_General_07_09.pdf

ACCION USA. *Sustaining Businesses and Jobs Amid the Financial Crisis: Outcomes Data in the ACCION USA Footprint, 2007-2008.* Retrieved from http://www.accionusa.org/Uploads/FileManager/Publications/ACCION%20USA_2009%20Impact%20Study.pdf

Adler, L. (n.d.). Foreclosures soar 81 percent in 2008 | Reuters . *Business & Financial News, Breaking US & International News | Reuters.com*. Retrieved June 6, 2010, from http://www.reuters.com/article/idUSTRE50E1KV20090115

Baker, D. (n.d.). The Budget Deficit Scare Story and Great Recession. *The Center for Economic and Policy Research*. Retrieved June 6, 2010, from www.cepr.net/documents/publications/deficit-2010-02.pdf

Baker, D. (2005). The Housing Bubble Fact Sheet. *Metropolitcan Policy Program*, *n/a*. Retrieved June 6, 2010, from http://www.cepr.net/documents/publications/housing_fact_2005_07.pdf

Berube, A., & Kneebone, E. (n.d.). Two Steps Back: City and Suburban Poverty Trends 1999-2005 - Brookings Institution . *The Brookings Institute*. Retrieved June 4, 2010, from http://www.brookings.edu/reports/2006/12poverty_berube.aspx

Blackwell, A. G. (2007). Fighting Poverty with Equitable Development. *Ending Poverty in*

America: How to Restore the American Dream (pp. 244-255). New York: New Press.

Blank, R. (2007). How to Improve Poverty Measurement in the United States. *National Poverty Center Working Paper Series*, *27*(2). Retrieved March 4, 2010, from http://www.npc.umich.edu/publications/u/working_paper07-30.pdf

Brooks, M. (2002). *Planning Theory for Practicioners*. Chicago: Apa Planners Press.

Cancian, M., Danzinger, S. (2009). *Changing Poverty and Changing Antipoverty Policies.* Retrieved from http://npc.umich.edu/publications/u/working_paper09-06.pdf

Deininger, K., & Liu, Y. (2009). Determinants of Repayment in Indian Micro-Credit Groups. *The World Bank Development Research Group, Sustainable rural and Urban Development Team*, *N/A*(4885), 1-13.

Doyle, K., & Black, J. (2001). Performance Measures for Microenterprise in the United States. *Journal of Microfinance*, *3*(1), 19-43. Retrieved June 13, 2010, from http://www.microfinanceregulationcenter.org/files/2907_file_02907.pdf

Edwards, J. (2007). Conclusion: Ending Poverty in America. *Ending Poverty in America: How to Restore the American Dream* (pp. 256-267). New York: New Press.

Fighting Poverty: What Works and What Doesn't. (1987). Cambridge: Harvard University Press.

Godfrey, P. (2008, Spring). What is Economic Self-Reliance?. *ESR Review* , *10*, 4-8. Retrieved January 19, 2010, from http://proquest.umi.com/pqdweb?did=1477242691&sid=2&Fmt=4&clientld=17870&RQT=309&VName=PQD

Gordon, D. (Director) (2005, December 12). Indicators of Poverty and Hunger. *Expert Group Meeting on Youth Development Indicators*. Lecture conducted from University of Bristol, New York City.

Iceland, J. (2006). *Poverty in America: A Handbook* (2 ed.). Berkeley: University of California Press.

Imbroscio, D. (1995, July). An Alternative Approach to Urban Economic Development: Exploring the Dimensions and Prospects of a Self-Reliance Strategy. *Urban Affairs Review, 30*. Retrieved May 1, 2010, from http://uar.sagesub.com/cgi/content/refs/20/6/840

Katz, M. B. (1990). *The Undeserving Poor: From the War on Poverty to the War on Welfare*. New York: Pantheon.

Kiviat, B. (2009, January 19). Microfinance in the U.S.: Can Lenders like Grameen Succeed? - TIME. *Time.com*. Retrieved May 10, 2010, from http://www.time.com/time/magazine/article/0,9171,1950949,00.html

Kneebone, E., & Garr, E. (n.d.). The Suburbanization of Poverty. *The Brookings Institute*. Retrieved June 6, 2010, from www.brookings.edu/~/media/Files/rc/papers/2010/0120_poverty_kneebone/0120_poverty_paper.pdf

Mcdonald, J. F. (2007). *Urban America: Growth, Crisis, and Rebirth*. Armonk, New York: M.E. Sharpe.

Nichols, M. (2010, May 17). Bank for the Poor Hopes to Teach Wall St a Lesson - ABC News. *ABCNews.com*. Retrieved May 20, 2010, from http://abcnews.go.com/Business/wireStory?id=10668766

O'Connor, A. (2002). *Poverty Knowledge: Social Science, Social Policy, and the Poor in Twentieth-Century U.S. History (Politics and Society in Twentieth Century America)*. Princeton: Princeton University Press.

Property and Values: Alternatives To Public And Private Ownership (1 ed.). (2000).

Washington, DC: Island Press.

Replicating Microfinance in the United States (Woodrow Wilson Center Press). (2002). Washington D.C.: Woodrow Wilson Center Press (pp. 19-61).

Roscigno, V., Tomaskovic-Devey, D., & Crowley, M. (2006). Education and the Inequalities of Place. *Social Forces, 84*(4), 2121-2145.

Simon, W. H., & Simon, W. H. (2001). *The Community Economic Development Movement: Law, Business, and the New Social Policy*. London: Duke University Press.

Small Business Loans : Financial & Business Advice : ACCION USA . (n.d.). *Small Business Loans : Financial & Business Advice : ACCION USA* . Retrieved May 29, 2010, from http://www.accionusa.org

Squires, G. (1992). Community Reinvestment: An Emerging Social Movement. *From Redlining to Reinvestment: Community Responses to Urban Disinvestment* (pp. 38-72). Philadelphia, PE: Temple University Press.

Southern Good Faith Fund. *SGFF Asset Builders Impact Report 2007.* Retrieved from http://www.southerngff.org/_pdf/pub_raida/ab_impact_9_07.pdf

Southern Good Faith Fund. *SGFF Business Development Center Impact Report* 2007. Retrieved from http://www.southerngff.org/_pdf/pub_awbdc/bdc_impact_9_07.pdf

Southern Good Faith Fund. *SGFF Annual Impact Report 2005-2006.* Retrieved from http://www.southerngff.org/_pdf/sgff_annual_05.pdf

Talanker, A., Davis, K., & LeRoy, G. (n.d.). Straying from Good Intentions. *Good Jobs First*. Retrieved June 6, 2010, from www.goodjobsfirst.org/pdf/straying.pdf

Yunus, M. (2003). *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: PublicAffairs.

Yunus, M. (2009). *Creating a World Without Poverty: Social Business and the Future of Capitalism*. New York: PublicAffairs.

Zarefsky, D. (2005). *President Johnson's War on Poverty: Rhetoric and History* (1 ed.). Tuscaloosa: University Alabama Press.

6. Appendix A

Services provided by Economic Self-Reliance capital type

1. **Economic Capital**

Southern Good Faith Fund

- The Southern Good Faith Fund's Individual Development Accounts, part of the Asset Building program, help low-income individuals create and maintain savings accounts, with every dollar put in by the individual being matched by the Southern Good Faith Fund with $3. The account must be maintained for a minimum of six months, with a minimum deposit of $20 per month. These funds can be put towards "homeownership/home improvement, post-secondary education, small business start-up or expansion (Southerngff.org, 2009)." The maximum life-time match per individual account is $2,000 and the maximum life-time match per household is $4,000.
- The Southern Good faith Fund was a part of Give Arkansas a Rai$e Now, a coalition that successfully advocated for an increase in the state minimum wage. These efforts made Arkansas the first state in the South that increased their state minimum wage beyond the federal minimum wage.
- Southern Good Faith Fund provides IRS-sponsored free tax filing services, known as Voluntary Income Tax Assistance, for individuals and families earning under $49,000. These services also determine if individuals are eligible for Earned Income Tax Credits and Child Tax Credits.

ACCION USA

- The small business microloan program lends to individuals amounts ranging from $500 to $50,000, with an average loan amount of $5,100. Businesses that have been in operation for less than six months are loaned a maximum of $30,000.
- First-Time Credit Builder loans are available for individuals who need help establishing credit for the first time and are available in amounts of $700.
- Credit Development loans are also available for individuals to help continue establishing their credit history after paying off their first Credit Builder loans.
- Interest rates for such loans are fixed from 8.99% to 15.99%, are termed for up to 60 months, and can be either installment or balloon type loans.

Grameen America

- Microloans are provided on a range of $200 to $5,000 for entrepreneurial purposes. According to a blog entry by Malorye Allison on the Grameen America website, the typical size of a loan is $200.
- The interest rate for microloans is 15%.
- Savings are also required during the “group training period” at a minimum rate of $2 per day for five days and $2 per week during the entire program. Payments back for the loan occur on a weekly basis, making the loans payments smaller and easier to manage for borrowers.
- Grameen America loans do not require collateral.

2. Human Capital

Southern Good Faith Fund

- The Southern Good Faith Fund's Aspiring Scholars Project helps "encourage families to save for their children's post-secondary education expenses (southerngff.org, 2009)." Parents who enter the program are required to complete classes about economics, investments, and the importance of a college education. In exchange of completion of these classes, the Southern Good Faith Fund provides a $100 seed deposit into these accounts, with every dollar deposited by these families to be matched with a dollar by the Southern Good Faith Fund, up to $1,000.
- Classes provided by the Southern Good Faith Fund include the following topics:
  a. Money Management
  b. Understanding spending habits and savings goals.
  c. Understanding Financial Services available to banks.
  d. Credit Management and Solving Debt Problems.
  e. Renting, Leasing, and Buying.
  f. Homeownership, Education, and Small Business Development.
- The Careers Pathways program "uses a series of connected educational programs that enable students to combine school and work and advance to better jobs and higher levels of education and training" (Southern Good Faith Fund, 2007).

ACCION USA

- Financial workshops are available at any of the ACCION USA office locations and cover a variety of topics related to managing a small business and maintaining good credit.

- Webinars and online resources are also widely available for small business owners. Webinars are available for borrowers who cannot travel to workshops and the online resources are accessible to anyone with a computer.

Grameen America

- The Grameen Group-Lending model helps clients exchange and learn ways to further their success in creating and maintaining a business. The weekly center meetings also supplement knowledge.

3. Institutional Capital

Southern Good Faith Fund

Services provided in Arkansas and Mississippi.

ACCION USA

- ACCION USA has physical lending offices in New Mexico, Arizona, Colorado, California (San Diego), Illinois (Chicago), Texas, Louisiana, New York, New Jersey, Florida, Georgia, Massachusetts, New Hampshire, and Maine. ACCION USA also provides loans to over 30 other states, as well as the District of Columbia and Puerto Rico through their online lending program.

Grameen America

- Grameen America operates and currently has offices in Queens, New York and Omaha, Nebraska. Grameen America is currently in the process of opening additional branches in San Francisco, CA and Washington, DC within the next five years.

4. Social Capital

Southern Good Faith Fund

The Southern Good Faith Fund has collaborative partnerships with thirteen organizations, some of the most notable being:

- Arkansans Against Abusive Payday Lending, which was successful in banning the payday lending industry, a very unsafe and predatory financial services for low-income households, from Arkansas.
- Arkansas Coalition of Housing & Neighborhood Growth for Empowerment "is a coalition of community development corporations and other housing providers that organized to provide professional development training and advocate for policy change to support affordable housing activities."
- Rural People, Rural Policy is a partnership meant to advocate for policies that "improves the lives of rural people and the vitality of rural communities."
- The Working Poor Families Project partners with nonprofit organizations within Arkansas and Mississippi to "identify and strengthen state policies that help working families achieve success in the labor market" (southerngff.org, 2009).

ACCION USA

- ACCION USA also hosts networking and "speed-coaching" events to help small business owners make professional connections needed to formulate effective marketing strategies.

Grameen America

- The Grameen Group lending model requires borrowers to create or join groups of five and meet on a weekly basis to discuss strategies and help one another to pay back their loan installment.
- Three to five of these groups then join "Centers" where discussions are facilitated by a Center leader to further discuss issues and tips to help borrowers maintain their payments and improve their business ventures.

7. Appendix B

Outreach

1. How many clients has the program reached?

Southern Good Faith Fund

- Between 1999 and 2007, efforts by the Southern Good Faith Fund's Business Development Center were able to create or maintain 1,337 jobs. 511 businesses have been established, expanded, or retained.
- 6,329 clients were served by the Business Development Center Program since 1999; 83% were female; 81% were African American; 28% have a high school diploma; 41% have some college education; 18% have a bachelor's degree.
- In 2007, 785 low-income individuals participated in the Asset Builders program around Arkansas and Mississippi. 89% were African American; 82% were female; 51% were single.
- Between 1997 and 2007, the Career Pathways program had 930 individuals graduate from their program; 78% were between the ages 18 and 35; 91% were female; 79% were African American; 93% have children under 18; 63% are single, never married, 85% lacked a savings account; 61% do not own a car; and 42% consider transportation to be a significant barrier in improving their livelihoods (southerngff.org, 2007).

ACCION USA

- Since the establishment of the microfinancing institution in 1991, $120 million has been lent out between 19,068 loans.
- ACCION USA has supported around 23,000 small businesses in 46 states since 1991.
- On average, each microloan contributes to the creation or maintenance of 2.4 jobs.

- When extrapolated out, over 45,000 jobs have been created or maintained by ACCION USA loans.
- ACCION USA's clients are 61% Hispanic or Latino, 27% African American, and 40% Female.

Grameen America

- Within a year and a half of the first branch's opening, Grameen America has successfully lent out $2.3 million in loans to over 1,350 borrowers. 97% of borrowers are women.

2. What is the level of poverty of the clients that the microfinancing institution attempts to help?

Southern Good Faith Fund

- 81% of participants of the Asset Builders program had a monthly household income of less than $2,000.
- For the Business Development Center, 18% of clients had gross incomes of less than $10,000; 33% had gross incomes between $10,000 and $25,000; 31% had gross incomes between $26,000 and $50,000.
- 63% of participants in the Career Builders program had incomes under $5,000 and 68% were Food Stamp recipients (southerngff.org, 2007).
- From this information, it appears that individuals helped in this microfinancing program are both above and below the poverty line.

ACCION USA

- ACCION USA small business loans for existing businesses have several requirements:
  - Have a credit score of 575 or more.
  - Have not declared bankruptcy in the past 12 months.

  - Have not had any late rent or mortgage payments in the past 24 months.
  - Are up-to-date on all bills.
  - Do not have more than $3,000 in past due debt, generally acquired under emergency circumstances (such as layoff or illness).
  - Exhibit steady cash flow and the ability to support monthly loan payments.
  - Can provide a cosigner, if needed.
- ACCION USA has special considerations for start-up business loans:
  - Must provide a cosigner.
  - Must be able to match 50% of the loan amount with previous personal investment in the business, or savings.
  - Have an external source of income outside of the business.
  - The proposed business must be operational for less than six months, have not yet become profitable, and have all required licenses. This includes individuals purchasing an existing business for their “start-up” business excursion.
- Those who do not have an existing credit score or do not meet the credit requirements are eligible for credit improving loans. It can be inferred that the microfinancing institution lends to those above the federal poverty level, as those who have had trouble making rent or mortgage payments, are in debt, and have a credit score are ineligible for loans. Although the program does have a credit-building loan program available, this service is the furthest the program goes in helping those with debt issues.

Grameen America

- The lending program does not require collateral, a current bank account, any credit history, or guarantors. This is intentional to attempt to reach those below the federal poverty level. The requirements are:
    a. To join or create a five-member group of like-minded individuals of the same economic status.
    b. Be a permanent resident of the community.
    c. Live close to the members within your group.
    d. Be the only member of your household applying for membership in the same group.

All three microfinancing programs serve a significant portion of low-income individuals above, at, and well below the federal poverty level. Through the use of the internet, ACCION USA is able to serve the most clients through its microfinancing program. Although each program is reaching what is normally considered by mainstream lending institutions to be the riskiest of clients, each program has a list of requirements that must be met in order for a loan to be dispersed.

8. Appendix C

Impact

1. **How much more income do clients receive after going through the program in comparison to before?**

Southern Good Faith Fund

- According to the September 2007 Impact Report, the Asset Builders Program created about $2 million in participant savings and matched funds provided by the Southern Good Faith Fund.
- Between 2003-2007, the Asset builders program enabled the average increase in cumulative median net worth of clients between the time of enrollment into the program and the time of asset purchase was 287.4%.
- The 2007 Impact Report for the Business Development Center program states that between 2001 and 2005, clients enrolled in the program improved their incomes by an average of 10.8%.
- The 2007 Impact Report for the Career Pathways program states that between 2001 and 2007, an average of 83% of all graduates placed in jobs or were on their way to the next step on their career pathway and an average of 75% of graduates were still employed after six months (southerngff.org, 2007).

ACCION USA

- Median wage of jobs created or maintained by ACCION USA microloans are 24% higher than the federal hourly minimum wage of 2009 (around $9.00 an hour).
- In 2008, an impact study determined that the median increase in income for clients was 6%.

- 33% of clients experienced an increase in sales revenue, while 41% noted a decrease in sales revenue.
- In the previous year's study, 51% of clients experienced an increase in sales revenue.
- Regardless, the overall business survival rate of clients is 98% of clients whose businesses existed prior to receiving a microloan and 89% of clients whose businesses were established after receiving a microloan.

Grameen America

- According to a Reuters article:

> "[Grameen America] has provided more than $6 million to 2,800 borrowers, mainly women, living below the U.S. poverty line. Those borrowers, who use the money to start or expand their small businesses, have deposited savings of more than $350,000 (Reuters.com, 2010)."

- Aside from second-hand sources of information, there are no impact reports with fiscal details. Because the program is still relatively new, there is not enough data to further interpret in the long-term how effective these microloans are in improving the income of clients.

2. What financial products do clientele now have access to?

Southern Good Faith Fund

- With the Southern Good Faith Fund's Asset Builder Program, about $4.6 million was leveraged in mortgage loans for low-income individuals to purchase homes in 2007. During this same year, 462 asset purchases were conducted by clients, with purchases going towards the following:
    a. 38.7% to Home Renovation
    b. 28.1% to College Education
    c. 18.8% towards Home Ownership
    d. 14.2% toward the establishment or expansion of a small business (Southerngff.org, 2007).
- 21% of clients in the Asset Builders program did not have a bank account at the time of enrollment.
- Since 1999, the Southern Good Faith Fund's Business Development Program was able to help 195 clients receive around $5.3 million in financing, with 78.4% of financing coming in the form of loans (Southern Good Faith Fund, 2007).
- From 2004 and 2006, the Voluntary Income Tax Refund Assistance program conducted 344 tax refunds, which provided families a total of $242,979 in Earned Income Tax Credits and $599,671 in state and federal tax refunds. This averages out to be around $706 in Earned Income Tax Credits and $1,443 in state and federal tax refunds per family.

ACCION USA

- From 1991 to 2010, over $119 million in microloans was lent out to low-income individuals.
    - 32% of clients utilized loans to stabilize and improve an existing business.
    - 26% of clients utilized loans to substantively grow an existing business.
- First-Time Credit Builder loans are available for individuals who need help establishing credit for the first time and are available in amounts of $700.
- Credit Development loans are also available for individuals to help continue establishing their credit history after paying off their first Credit Builder loans.
- Since 2002, over 20,000 individuals attended financial workshops hosted by ACCION USA offices.

Grameen America

- All borrowers begin with a Credit Establishment Loan of up to $1,500. After consistently repaying these “basic loans”, borrowers can develop a good credit history. This is intended so that borrowers can “graduate” from the microfinancing institution in order to become borrowers at other financial institutions.
- Borrowers also are required to open a Personal Savings Account with $10 saved during the five-day group training period. On a weekly basis, borrowers deposit a small amount into the account (a minimum of $5). This allows them to establish savings that would provide borrowers a more stable lifestyle.

9. Appendix D

Sustainability

1. Is the microfinancing institution financially self-sustaining or are they dependent on subsidies?

Southern Good Faith Fund

- In FY 2004-2005, the net assets at the beginning of the year was $1,510,604 and by the end of the year, expenses of the organization was $1,833,837. This deficit forced the Southern Good Faith Fund to access temporarily restricted reserves. Majority of the Southern Good Faith Fund's source of money is from state and federal grant sources, making them largely dependent on subsidies.

ACCION USA

- 65.2% of funding sources are from private contributions.
- 28.3% of funding sources are from loan fund investments and fee incomes.
- Despite efforts to be financially-independent of subsidies, the program is still dependent on outside grants and donations to maintain itself.

Grameen America

- The microfinancing institution requires a minimum of $2 million of start-up capital to be established, with $6 million needed within a period of five years to create a fully-operational branch.

2. What is the lending payback rate?

Southern Good Faith Fund

- Not available. The lending program works as savings promotion based on microfinance lending models, with a client's personal savings in accounts being matched at a 3:1 ratio

by the Southern Good Faith Fund. The organization also works with mainstream financial institutions in helping clients procure mortgages and loans.

ACCION USA

- The microfinancing program has a 93% lending payback rate.

Grameen America

- According to multiple sources, the repayment rate for loans is between 97-99% (Reuters.com, 2010; Time.com, 2010; Grameenamerica.com, 2009).