The Power of Investing to Alleviate Poverty

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Abstract

Hundreds of millions of people across the world are affected by extreme poverty each day. At the same time, investing has generated more wealth than anything in the history of the world. Because of the great success of investing in generating wealth, there must be a way for investing to be used to assist in the alleviation of poverty. To examine this possibility, one must consider the root causes of poverty, the reasons for the success of investing, and how poverty is currently being alleviated, to effectively develop a way for investing to be used to help alleviate poverty.

The Power of Investing to Alleviate Poverty

Introduction

Machiavelli once said, “The reason there will be no change is because the people who stand to lose from change have all of the power, and the people who stand to gain from change have none of the power” (Miller, 2015, 0:45). In other words, there will never be large-scale change when the interests of those who have and those who need are not aligned. As it relates to poverty, while the global aid system can be very helpful to stop the bleeding after a crisis, it has done very little to effectively raise people out of poverty because it fails to align the monetary interests of those who have with those who need. However, over the past century, business and investing have generated trillions of dollars of wealth, primarily because they align the interests of those who have with those who need. Thus, the question is begged, “Could poverty be effectively alleviated if the interests of both the rich and the poor were aligned through investment in businesses in the developing world?”

Poverty

Poverty. It is one of the greatest challenges in the world today, and is one that has perpetuated since the beginning of humanity. Because of the size of the problem and the detrimental effects it has on billions of people, this section of the research will seek to help readers understand what poverty is, the magnitude of the problem, and the root causes of it, so that a more effective strategy can be created to help alleviate it.

Defining Poverty

Defining poverty is a difficult task because it is a problem that is multi-faceted and means different things in different parts of the world (Measuring Poverty, 2019). Furthermore, poverty is not simply a physical problem and a full understanding of poverty includes not only its physical aspects, but the mental, emotional, and spiritual aspects of it as well (Corbett & Fikkert, 2009, p. 53). These other aspects will be addressed in the following research, but to aid in the understanding of what poverty is, this research will use the definition of poverty as published by the World Bank: poverty is when one's level of income and consumption is insufficient to provide for an adequate amount of goods and services to sustain a minimum standard of living (Measuring Poverty, 2019).

Breaking the definition down further, both income and consumption are included in this definition because two people might live in different parts of the world and both earn two dollars each day, but one has access to clean water and medical services while the other does not (Measuring Poverty, 2019). Thus, it is important to not only look at one's income, but their ability to consume as well (Measuring Poverty, 2019). When looking at what constitutes adequate goods and services, there are five areas the World Bank focuses on: food, clean water, sanitation, shelter, and access to life-saving health services (Measuring Poverty, 2019). Thus, a more comprehensive definition of what constitutes poverty is a situation in which one has neither enough income to provide for, nor the ability to consume adequate food, clean water, sanitation, shelter, and access to life-saving health services (Measuring Poverty, 2019).

Data on Poverty

To understand the severity of poverty, one should begin by looking at the data. However, it is important to understand, as described in the following section, that while poverty is often measured by the symptoms it presents, the methods used to alleviate it must combat the root causes of the problem, which are much more difficult to see. With that stated, one can gain an understanding of the magnitude of poverty by understanding the following statistics.

Overarching statistics. The World Bank, the premier secular institution fighting poverty, states that in 2015, 10% of the world's population lived in extreme poverty, defined at living on less than $1.90 per day (Poverty and Equity, 2020). While this number is significantly lower than it was in 1990 when 35.9% of the world's population lived on less than $1.90 per day, there is still much work to be done (Poverty and Equity, 2020). At 10% of the world's population, 735 million people live in extreme poverty and this poverty is largely responsible for approximately 15,000 child deaths each day (Peer, 2018). More extensively, the World Bank states that 2.1 billion people, or 27% of the world's population are poor relative to their societies (New Ways of Looking, 2019). What is considered "poor" changes between societies because in some regions, one only needs food and clothes to be able to work, but in others, people need phones, computers, and cars as well (New Ways of Looking, 2019).

Looking ahead. Going forward, the World Bank estimates that by the year 2030, 90% of the people living in extreme poverty will be located in Sub-Saharan Africa (New Ways of Looking, 2019). The World Bank has also created three tiers of poverty, which helps to provide statistical data for the growth of people from extreme poverty to mild poverty. In this structure, the international poverty line is $1.90 per day, the lower middle income class poverty line is $3.20 per day, and the upper middle income class poverty line is defined at living on less than $5.50 per day (Poverty and Equity, 2020).

Root Causes of Poverty

In any effort to solve a problem, one must first understand the root causes of that problem. Thus, while there are many reasons for poverty, this section of the research will seek to understand the core problems, as discovered by other researchers. Then, after analyzing what others have interpreted the root causes of poverty to be, the author will use the evidence presented in the research to explain what he believes to be two of the fundamental root causes of poverty.

Importance of identifying root causes. Accurately identifying the root causes of poverty is crucial to the success one has in alleviating it, because the strategy used to help alleviate it, is directly related to those causes. Many people determine the root causes of poverty to be the symptoms it presents, because those symptoms are easy to see: malnourishment, high disease rates, poor shelter (Corbett & Fikkert, 2009). However, in order to accurately understand the root causes of poverty, one must go deeper than the physical symptoms it presents. The diagnosis of a problem influences the solutions created to solve it, and if the problem is identified by the superficial symptoms it presents, the solutions will be superficial as well, and will not help to solve the core problem.

To understand the importance of identifying the root cause of a problem, consider the following theoretical scenario. A man has had chronic headaches for the past six months and finally decides to see a doctor. The doctor then performs many superficial examinations and prescribes a stronger painkiller, believing the man simply suffers from migraines. This painkiller works for several months and the man has no pain, but after those several months, the headaches come back worse. After returning to the doctor for an MRI scan, it is obvious that the man has a tumor pressing against his brain, causing the headaches. The original diagnosis, based off the superficial symptoms presented did nothing to solve the problem, because while they alleviated the symptoms for a time, it made the problem worse by allowing the tumor time to grow. This theoretical scenario can be applied to poverty in that if the solutions people use to alleviate poverty are superficial, such as giving food, water, or clothes, the symptoms may be alleviated for a time, but the problem will most likely get worse. Thus, it is crucial to understand the root causes of poverty before developing a strategy to alleviate it.

Traditional understanding of root causes. For centuries, people have been trying to understand the root causes of poverty. They name things like a lack of education, oppression by powerful people, or a lack of material resources and as such, the solutions used to combat poverty are directly related to people's understanding of the root causes of it (Corbett & Fikkert, 2009, p.55). For example, those that believe the root cause of poverty is a lack of knowledge, build schools to educate the poor, and those who view the root cause of poverty as a lack of material resources, send food and clothes to the poor (Corbett & Fikkert, 2009, p.55). While these are most certainly problems to be addressed, this research will argue that there are deeper underlying root causes of poverty, and that those problems must be addressed to accurately alleviate it.

Author's analysis of root causes. This research identifies two of the root causes of poverty: the poverty of the mind, and the inability to participate in large-scale mutually beneficial relationships. Since both of these causes cut to the deep core of poverty, the need to address them is essential. Furthermore, the potential to alleviate poverty by attacking both of these causes is limitless.

Poverty of the mind. The book, *When Helping Hurts*, proposes that the goal of giving should be to help the poor to help themselves, instead of helping the poor to be less miserable for a season by temporarily meeting their physical needs (Corbett & Fikkert, 2009). Put another way by the President of the American Enterprise Institute, "Our goal should never be to make poverty less miserable, our goal must be to make poverty more escapable" (Brooks, 2017, 2:19). Both ideas encourage people to give in a manner that empowers the poor to thrive, instead of providing them with only enough to survive.

For far too long, the wealthy have looked at the poor as not having the power to escape poverty on their own and this condescending attitude has led many poor people to look down upon themselves (Corbett & Fikkert, 2009). As evidence for this statement, after asking many people in North American churches as well as people living in poverty how they viewed poverty, what they concluded was that the rich describe poverty in terms of a lack of physical things, while the poor often described poverty in terms of the mental and emotional state it puts them in (Corbett & Fikkert, 2009). One of the poor's responses was, "The poor have a feeling of powerlessness and an inability to make themselves heard" (Corbett & Fikkert, 2009, p. 53). Another person stated that when someone is poor, they feel inferior because they have little food and clothing, and little progress in their family (Corbett & Fikkert, 2009).

These comments and the content of this book, among other things, leads to the idea that while the lack of food and clothing is an awful reality, it is a symptom of a greater problem. Thus, the greatest poverty is not the poverty of having too little, but the poverty of thinking too little of oneself. If those in poverty had confidence that they could get themselves out of poverty and the knowledge of how to do so, they may actually be able to do it.

Inability to participate in mutually beneficial relationships**.** Another root cause of poverty is the disconnect from global trade (Miller, 2015). In 2014, the documentary, *Poverty Inc.*, was released to bring awareness concerning the methods through which people attempt to help the poor. The message those living in impoverished countries gave to the film makers was that they do not need more aid and assistance, they simply need to be connected to global trade (Miller, 2015). One successful businessman in Africa stated, "The countries they are calling poor are oil rich and diamond rich and timber rich and land rich and gold rich, and are in good spots for tourism. Africans are not stupid, they are just disconnected from global trade" (Miller, 2015, 6:13). Furthermore, the point was made that Africans know their market, just like any other citizen knows the markets of their own country (Miller, 2015). Thus, the solution is not for wealthy people to force their ideas upon the impoverished, but rather, to help the impoverished to develop their businesses and include them in global interaction and trade (Miller, 2015).

Summary of root causes. While many see the core problems of poverty as physical, the author of this thesis suggests that two of the root causes of poverty are a lack of knowledge of how to get out of poverty, and the inability to participate in mutually beneficial relationships on a large, global scale. This point will be developed further throughout the research, but the thesis is that poverty may be effectively and efficiently tackled if business owners in poor countries had the ability to participate in mutually beneficial relationships with those in developed nations, so they could sell their products and services on a larger scale and create more jobs in the process. This would tackle both of the root causes outlined above because as the opportunities to participate in mutually beneficial relationships grow, the local businesspeople who understand the way out of poverty will help their neighbors to rise out of poverty by creating jobs for them, improving their self-confidence because they are finally able to provide for their families.

Investing

After examining the root causes of extreme poverty, it can be helpful to compare those with the factors that have created extreme wealth, namely, investing and the stock market. Investing is arguably the greatest wealth building tool the world has ever seen, and as such, this section will seek to explain the history of investing, the purpose of it, the types of investing, and its historical effect on wealth creation. Before jumping into the research, it is important to understand what the author means by the term investing. Thus, for the purposes of this research, investing will be defined as any capital given to a company in exchange for an opportunity to receive a return on that investment through the form of equity.

History of Investing

The first evidence of investing comes from over 2000 years ago before Christ walked the earth (Bramble, 2016). However, the modern idea of the stock market was not created until the late 16th century and the first paper share of stock, issued by the Dutch East India Company in modern day Holland, did not come until 1602 (Bramble, 2016). The potential investing had to generate wealth and business expansion created much buzz and the idea quickly spread to Portugal, Spain, France, and England (Bramble, 2016). In 1773, the first stock exchange was created in England, then followed by a stock exchange in Philadelphia in 1790 and the opening of the New York Stock Exchange on Wall Street in New York City in 1792 (Bramble, 2016).

Purpose of Investing

After understanding the history of investing, it is important to understand the purpose of investing to be able to apply it to a problem such as poverty. The purpose of investing is twofold. For the company seeking the investment, the purpose is to add capital to the company’s balance sheet while giving up equity instead of creating a debt obligation that must be paid back (Bramble, 2016). This funding can allow the business to explore innovative and revolutionary ideas they have or big expansion projects such as an acquisition (Jordan, Miller & Dolvin, 2018). Specifically, in the Industrial Revolution, companies used investments for start-up capital and the development of modern manufacturing (Bramble, 2016). The second purpose of investing is to generate wealth for the investor when the value of their investment in the company increases as the company uses the investment to become more profitable (Bramble, 2016).

The essence of investing is a mutually beneficial relationship in which those who have financial excess, investors, provide capital to those who need it, businesses, in exchange for a stake in the company. Thus, the interests of the investors and the company are aligned, so, as the company does well, the investor also does well. This alignment of interests is the reason why people invest, because each party has a need that is being met by the other. The business’s need for capital is being met by the investor’s excess capital, and the investor’s need of an opportunity to gain a return on their investment is met by the company’s excess equity. This alignment of interests between those who have and those who need, creates an incentive to help each other, and is a core reason why investing is so effective in growing businesses, creating jobs, and increasing wealth.

Types of Investing

There are two main types of investing: public investing and private investing. Public investing occurs when someone invests money in a public company, one whose stock is listed on a public stock exchange (Jordan, Miller & Dolvin, 2018). Private investing occurs when people invest money into a private company that is not listed on a public stock exchange (Jordan, Miller & Dolvin, 2018).

Public investing. When investing in a public company, one can invest in the primary market or the secondary market. When investing in the primary market, the investor pays the company money for a share of their stock and when investing in the secondary market, an investor pays another investor who is selling their share of stock (Secondary Market, 2020). For this research, the focus in public investing will be on the primary market. This is because this research is focused on how capital given to a business in exchange for ownership in the company can increase wealth.

Another term for the primary market is initial public offering, abbreviated, IPO, and is a core way companies raise money through equity financing (Jordan, Miller & Dolvin, 2018). An IPO occurs when a company decides to change its status from being a private company to a public company, and typically happens when a company uses an investment bank to help them value their company and then sell the ownership of the company in the form of shares of stock to the public (Jordan, Miller & Dolvin, 2018). There are different ways companies can go about undertaking an IPO, but the main idea for the purpose of this research is to understand that an IPO allows a company to raise a substantial amount of money in a short period of time. For example, in 2018 alone, there were 1,359 initial public offerings across the world that raised over

$204 billion, an average of over $150 million per company (Global IPO Trends, 2019). This figure demonstrates the power that selling ownership in a company can have to add additional capital to a business quickly.

Private investing. While IPO's are one way a company can raise quick capital, another way a company can do this is through private equity. For the purposes of this research, private equity will be used to describe any equity financing of a nonpublic firm. This financing can occur happen through angel investors, venture capitalists, or through private equity funds (Jordan, Miller & Dolvin, 2018). For this research, the focus will be on private equity funds. A private equity fund is typically set up similarly to a hedge fund in that the private equity fund is an investment firm that pools together capital from investors and invests the money in different private companies looking for financing (Jordan, Miller & Dolvin, 2018). The goal of a private equity investor is to give capital to a private company, in an effort to help it grow and then sell the shares of ownership when the company appreciates in value. However, because this turnaround takes time, most private equity funds have a minimum investment duration of 7-10 years (Jordan, Miller & Dolvin, 2018).

Historical Effect of Investing on Wealth Creation

Historically, investing has arguably been one of the greatest wealth creation tools the world has ever seen. Before the stock market, it would be unheard of for a company to raise hundreds of millions, if not a billion dollars in one day. However, with the stock market, that became possible, and with private equity, private companies are now able to attract a substantial amount of capital as well.

After understanding how companies can create wealth through attracting investments, it is important to observe an example of this in real life. One example of the power of investing to impact wealth levels is the rise of China. In 1978, more than 90% of all Chinese citizens lived on less than $2 per day. Today, that number is less than 1% (Allison, 2018). In a Ted Talk titled, “Is War Between the US and China Inevitable,” Graham Allison, the Founding Dean of Harvard’s John F. Kennedy School of Government and Assistant Secretary of Defense under President Bill Clinton, stated, “Never before have so many people risen so far, so fast, on so many different dimensions” (Allison, 2018, 0:24). While this growth did not occur solely through the stock market, a study done by One Road Research showed that between the years 2000 and 2014, the influx of capital into the Chinese marketplace contributed to more than 50% of China’s GDP growth rate of 9.5% per year (Pham, 2018).

As mentioned above, investing is an extremely beneficial tool for businesses to use to increase their flow of capital, and the core reason it has been so successful and sustainable, is that is creates a mutually beneficial relationship where investors want to give the company capital because they believe the value of their investment will appreciate. This faith in the growth of the value of their investment is evidenced by the increase in the value of the stock market between 1980 and 2019. In those 40 years, the S&P 500, a leading stock market index, has increased in value by 2,764%, or 11.6% each year with dividends reinvested (S&P 500, 2020). Thus, a $1,000 investment into the S&P 500 in 1980 would be equal to $27,640 at the end of 2019.

Current Methods for Alleviating Poverty

After gaining a better standing of what poverty is and why investing has been so successful in creating wealth, one must understand the current methods of alleviating poverty before being able to apply investing to poverty alleviation. This section of the research will first examine the effects of charity on poverty alleviation, and then compare that to the effect business has on poverty alleviation. Following that discussion, the comparison will be demonstrated by comparing the economic growth of Haiti to that of China.

Charity as a Method of Poverty Alleviation

One of the primary ways people have attempted to fight poverty is through charity. For the purposes of this research, charity is defined as the giving of goods or services to those in need without receiving anything in return. Traditionally, after seeing a video of people in poverty or after traveling to a third-world country, many people feel compelled to help (Hawthorne, 2017). They often see pictures of people without clothes or shoes, or hear stories of people going without clean water or food and decide that their solution will be to give clothes or shoes or food or dig wells for people (Hawthorne, 2017). While the desire to help certainly comes from a good heart, there are two downsides to charity that will be discussed below. Before discussing the downsides to charity, examples of individuals, corporations, and governments engaging in charity will be examined below.

Examples of charity. One example of charity being used to fight poverty comes from a man who became famous after being hosted on CBS evening news. They highlighted how he made a living as a walking advertisement wearing a different company’s t-shirt each day (Sadler, 2010). After accumulating many shirts and gaining a passion for the t-shirt business, he decided to launch a campaign to donate one million t-shirts to people across Africa (Sadler, 2010).

Another example of charity is seen in the example of TOMS shoes. TOMS shoes was founded with a “buy one, give one,” business strategy that donated a pair of shoes to someone in need for every pair sold (96.5 million lives, 2020). In the last 13 years, TOMS has donated close to 100 million pairs of shoes (96.5 million lives, 2020).

The desire to help people in need extends beyond individuals, companies, and organizations, to even governments. One of the most famous examples of government charity is the US selling of subsidized rice to the Haitian government. In this deal, the United States sold mass amounts of rice to Haiti for a very low cost, with the intention that the exporting of rice will not only help US farmers sell more product, but will allow Haitians to focus less time on farming and jump straight into the industrial era (Miller, 2015). This plan was one that had good intentions as well as pressure from three different angles. The food lobby in the US wanted to sell more product, off-shore venture capitalists wanted to build factories in Haiti, and getting workers out of the fields and into the factories would do this (Miller, 2015). Further, the conservationists wanted to get people to stop farming on the mountains because Haiti was having a problem with the erosion of their soil (Miller, 2015). All of these ideas came from a desire to help those living in poverty and many actually have a positive short-term impact. However, while charity comes from a good heart, it has two main pitfalls.

Problems with charity. As stated above, all charity comes from a good heart and is intended to help. Furthermore, it can be incredibly beneficial after a disaster or in an emergency (Miller, 2015), and thus, the problem with charity discussed below pertains only to when charity is used as a method to bring people from poverty to self-sustainability. Thus, this section is not meant to demonize anyone. Instead, it is meant to enlighten readers on how charity can actually hurt those in poverty by contributing to poverty of the mind, and preventing sustainability.

Poverty of the Mind. As mentioned in the section on the root causes of poverty above, it is stated that the poverty of the mind is one of the greatest problems of poverty. This idea of the poverty of the mind is both a lack of knowledge of how to get out of poverty and the lack of confidence that they can (Corbett & Fikkert, 2009, p. 53). The problem with charity is that it rarely does much to help solve this problem. While giving the poor money or clothes can help to boost their self-esteem for a time, as is the case of Odero, a man in Kenya who is now able to host guests because he received money from a charity and bought a sofa, it does little to aid in long-term psychological growth (Aizenman, 2017). For example, one study showed that people living in poverty have considerably lower levels of confidence in their own ability to succeed (Fell & Hewstone, 2015). Furthermore, in the book, *When Helping Hurts,* it is written, "Poor people typically [describe poverty] in terms of shame, inferiority, powerlessness, humiliation, fear, hopelessness, depression, social isolation, and voicelessness" (Corbett & Fikkert, 2009, p. 53). The authors also state that there is a disconnect between the developed world who views poverty as a physical issue and those living in poverty who view it more as an emotional problem that makes them feel inferior and hopeless (Corbett & Fikkert, 2009, p. 53). The problem with giving things to people who are poor instead of helping them obtain it independently, is that it further contributes to the feelings of humiliation, shame, inferiority, and powerlessness when someone else is providing for their family. Thus, if one truly wants to help those living in poverty, they will eliminate solutions that contribute to feelings of shame and inferiority and use ones that restore the feelings of confidence and hope, because as stated by Helen Keller, “Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence” (Optimism, 2010, para. 1).

Preventing Sustainability. The second main downfall of charity, as defined above, is that it inhibits and even destroys sustainability. For example, going back to the situation where the US exported subsidized rice to Haiti, the influx of free rice destroyed all of their rice business (Miller, 2015). Jacob Donatien, a Haitian rice farmer, stated that the dumping of rice into Haiti decimated the farming industry because once the market became flooded with free rice, the demand dropped, leaving the farmers no choice but to abandon farming and lose their entire work for that year (Miller, 2015). Haitians interviewed in the documentary, *Poverty, Inc.*, also explained that the dumping of cheap rice into Haiti not only destroyed the rice business and made the Haitians dependent on foreign aid, but it also made them lazier because they were unable to produce their own things (Miller, 2015). One rice farmer stated, “What I want is when we produce, especially the rice we grow here, instead of having the international community sending us rice, we would like to export to them” (Miller, 2015, 10:16). Another stated, “In addition, maybe they can ensure job creation instead of donating” (Miller, 2015, 10:35). In summary, while giving free food, like the US government, free clothes, in the case of the man with the t-shirt business, and shoes, like TOMS shoes, comes from a good heart, solutions that truly help those in need are those that help the indigenous people to provide for themselves, because those solutions address the psychological side of poverty and are also sustainable.

Business

The other way that poverty has been fought is through business. For example, when the United States was founded after the Revolutionary War, businesses began to emerge and the economy jumped from an agricultural economy, to an industrial economy, and now to a service based economy (Economic Growth, 2019). The people in the United Sates did not receive aid from other countries, but instead created businesses and exported products to increase wealth. China also has a similar story, as described below, in that once they opened their borders to foreign business and investment, their economy grew rapidly (China's Economic Rise, 2019). Business has been one of the most successful methods for raising large groups of people to a higher standard of living.

Comparing Haiti and China

After discussing how charity and business have been used to attempt to alleviate poverty, it is beneficial to examine the results of both with an example from real life by comparing and contrasting China and Haiti. The traditional approach to alleviating Haitians from poverty has been through charity and foreign aid, but the primary method for alleviating poverty in China has been through business and foreign investment. Thus, this next section of research will seek to compare the effects of each method by contrasting China with Haiti.

In 1978, China was an extremely poor country. In fact, over 90% of China's population lived on less than two dollars per day (Allison, 2018). Today, that number is less than 1% (Allison, 2018). In contrast, in 1980, the Haitian annual Gross National Income (GNI) per capita was $250 (Haiti, 2019). Today, the GNI per capita is only up to $820. Furthermore, over 54% of the population still lives on less than $2.41 per day (Haiti, 2019). So the question is begged, why has China exploded economically, but Haiti has remained largely stagnate?

There are many reasons for this, ranging from population to geography to natural resources to government policies (Hill & Hult, 2020, p.69). However, the main difference that will be discussed in this research is that China enacted policies that aligned the interests of those who had with those who needed through business. In contrast, the strategy in Haiti focused only on benefiting one party through charitable giving.

Before their economic reforms in 1979, China had an economy that was stagnant, controlled by the government, and one that kept the country isolated from the world (China's Economic Rise, 2019). There were little to no alignments of interest between those who had and those who needed, and these policies largely contributed to them having a 90% poverty rate. However, in 1979, they enacted policies that opened the country up to foreign investment, trade, and some free-markets, and through these policies that align the interests of the rich and the poor, China has become the fastest growing economy in the world (China's Economic Rise, 2019).

In their purest form, foreign investment, trade, and free-markets are all mutually beneficial relationships. Trade is simply taking what each country produces better or has excess in, and trading it for what the other country has that is superior to what their country can create (Hill & Hult, 2020). Foreign investment is when companies and individuals pump capital into businesses in a country in hopes of realizing a profit (Hill & Hult, 2020). Finally, free-markets are built on the idea that left alone, people will participate in mutually beneficial relationships.

These policies of increasing foreign investment, trade, and free-markets, align the interests of the Chinese people with those around the world. This alignment of interest has produced an unprecedented 9.5% average GDP growth from 1979 to 2018 (Pham, 2018). Furthermore, this unprecedented growth was described by the World Bank, as “the fastest sustained expansion by a major economy in history” (China’s Economic Rise, 2019, para. 1).

One can contrast these policies with those in Haiti, in which the main response to poverty has not been the alignment of interests of those who have with those who need, but rather, charity: giving something in exchange for nothing. Before the earthquake in 2010, 80% of the basic services provided in Haiti came from the 10,000 non-governmental organizations (NGO’s) in the country (Edmonds, 2013). Furthermore, there have been billions of dollars of aid poured into Haiti in the last decade, with little to show for it (Johnston, 2019). While it seems like the “right thing to do” to give something for nothing, Haiti has not seen incredible, sustainable growth like China, largely because sustainability never happens apart from mutually beneficial relationships, in which the interests of those who have and those who need are aligned.

In one specific example, after the earthquake in 2010, NGOs had a large need for solar electricity and brought thousands of solar panels into Haiti from their donors abroad (Miller, 2015). While it seems harmless on the surface, there was a solar panel factory in Port-au-Prince, who could have met their needs. The company, which employs over sixty people, had their sales drop 98%, selling just one panel each month from January to June after the earthquake, when their typical sales were 50 panels each month (Miller, 2015). The problem with this is that giving products to developing countries that are creating those same products forces them to shut down operations because no one can compete with free. In essence, Haiti continues to be poor partially because charity has almost eliminated the need for business, creating dependency upon the NGO’s. Even worse, when those NGO’s decide to go elsewhere, there will be a massive hole in the market because their free gifts have destroyed the businesses that were in place to meet those needs.

In summary, China has seen massive growth because they enacted policies that allowed for the alignment of interests between those who have and those who need. In contrast, Haiti has remained stagnant because their method of combating poverty has relied upon free gifts. These examples are evidence that aligning the interests of those who have with those who need is a crucial step in alleviating poverty.

Investing as a Tool to Alleviate Poverty

Now that the current methods of poverty alleviation have been discussed, in addition to defining and discussing poverty and investing, one can begin to examine how investing can be used to alleviate poverty. This section will first examine the potential investing has to alleviate poverty. Then, this potential will be demonstrated through current practices being employed domestically and internationally.

Potential of Investing to Alleviate Poverty

Returning to the opening quote by Machiavelli: “The reason there will be no change is because the people who stand to lose from change have all of the power, while the people who stand to gain from change, have none of the power” (Miller, 2015, 0:45). What if both parties stood to gain from change? What if investing could be used to help alleviate poverty, because both the rich and the poor would stand to gain from change?

One of the most brilliant and promising solutions to poverty is impact investing. Impact investing has gained increasing attention in the media as many of the large global banks have launched impact investing divisions (Mookerjee, 2018). Impact investing is similar to socially responsible investing in that they both align the investor’s values and portfolios. However, impact investing also mandates there be a measurable social outcome of the investment. That is, the investment, along with producing substantial financial returns, must help solve a problem (Nexus, 2019).

There are several reasons that impact investing has such great potential to be a key piece in alleviating poverty and influencing social change. One reason, as stated by a member of the Rockefeller Foundation, a leader in the impact investing space, is that impact investing offers the opportunity to bring capital to the projects that need it in the developing world, through the enticement of a financial return (Credit Suisse, 2018, 5:03). Furthermore, as stated by Marisa Drew, CEO of the Impact Advisory and Finance Department at Credit Suisse, impact investing is more sustainable than philanthropy because the return on your investment allows you to reinvest the capital in another impact opportunity (Drew, 2015).

Current Practices

After understanding what impact investing is and the potential it has to play a large role in the alleviation of poverty, it is important to consider how it is being used today, both domestically and globally. As described below, the methods through which impact investing are used domestically are drastically different from those used in developing countries because the United States has the infrastructure and accountability to handle large scale transactions. However, despite the administrative differences, impact investing both domestically and in developing nations is centered on the idea of aligning the interests of those who have with that of those who need, in an effort to bring about positive social change as well as economic return.

Domestic solutions. One new tactic people are using to apply investing to the problem of poverty in the United States is through investing in Qualified Opportunity Zones. Qualified Opportunity Zones (QOZ's) were created through bipartisan collaboration and passed within the Tax Cuts and Jobs Act of 2017 (Opportunity Zones, 2018). Qualified Opportunity Zones are a collection of approximately 4,700 low-income communities within the United States that now offer preferential tax treatments to investments in real estate investment trusts (REITs) in these zones (Opportunity Zones, 2018). In short, investors can invest their capital gains into real-estate investment trusts (REITs) within these areas and defer their taxes for years (Opportunity Zones, 2018).

Global solutions. One company that is on the cutting edge of the impact investing industry is Talanton. Talanton was founded by a man named David Simms who has decades of experience in the microfinancing world (Investment team, 2019). Talanton is a company that offers an impact investing fund, in which they gain investments from individuals and pump that money into a specified company in the developing world with revenues between $250 thousand and $10 million (Approach, 2019). This money is then used by the company to grow and enhance the business and is then returned to the investor at some rate of return (Talanton, 2019). This solution is brilliant because it is supplying emerging, high potential companies, with capital to break through to the next stage of growth. Furthermore, the targeted company hires those living in poverty and are provides them with dignity and hope (Talanton, 2019). This method of impact investing helps to solve both of the problems of poverty previously illustrated. First, it provides the employers with capital so they can employ more people living in poverty, providing them dignity and confidence. Second, it facilitates the flow of capital to developing nations, allowing them to be included in global trade.

Author's Proposal

After understanding that most progress in poverty alleviation has come as a result of policies and programs that align the interest of those who have with those who need, the question is begged, "How can we align the financial interests of the poor, with those of the rich?" The solution of the researcher, is to create a platform that facilitates business partnerships between the rich and the poor by aligning their financial interests through private equity investing in medium-sized enterprises in the developing world. While Talanton provides this service to specific companies, a platform would allow for potentially thousands of substantially vetted companies to receive funding to grow their business. On this platform, companies would be able to post their capital needs, along with information about their company, including an in-depth financial report. Then, investors would be able to filter through companies that fit the criteria they are looking for (i.e., gross income, debt levels, location, business sector), and invest money through the platform and be given the shares in the company immediately.

The Opportunity

In the documentary, *Poverty Inc.*, a woman from Ghana stated that one of the main problems with their economy is that there is financing available for small companies through microloans, and there is financing available for large companies through loans from banks, but there is no financing available for companies in between, and these are the companies that provide the majority of jobs for those in third world countries (Miller, 2015).

Thus, the researcher's solution is to provide a platform for people to invest in medium-sized enterprises in the developing world that have a proven business model and are turning substantial profits. For the companies, this funding will allow them to achieve economies of scale, acquire another company, or increase the quality of their products so that they can be sold on the international exchanges. The mission of this platform would be to empower local entrepreneurs to better their products and grow their businesses by matching their capital needs with the investors who have the capital to meet their needs. This will align the interests of those who have capital, investors, with those who need capital, businesses, and will allow the businesses to grow and hire more people, which in turn, will help to lift families from poverty to self-sustainability.

Why is This Solution Best

The solution proposed by the author of this thesis has the potential to be effective because of three main reasons: The amount of money, the size of the impact, and because it addresses the root causes of poverty. In short, there are far more assets invested in the markets than donated each year and the scalability of investing is far greater than the scalability of aid. Furthermore, this solution also addresses the root causes of poverty, which is extremely important because any wholistic solution that does not address the root causes of poverty will be done in vain.

Amount of money. In 2018, the United States gave an astounding 427 billion dollars to charities, whether it be from individuals, foundations, or companies (Charitable Giving, 2018). However, as of 2017, there is 40 trillion dollars invested in the domestic stock market and 88.5 trillion dollars invested in the international markets (Nexus Impact Advisors, 2019). Thus, only 0.48% of the money in the international markets would have to be moved towards companies creating jobs in the developing world, to have the same impact as the entire United States annual giving going towards poverty relief efforts. For sheer numbers, this solution is extremely efficient.

Size of impact. Another reason that this solution is better than giving money, clothes, or food to those in poverty, is that helping businesses grow, helps them hire more employees, which in turn, helps them to raise many more people from poverty to self-sustainability than donating money would. For example, if, in Haiti, an investor invested $50,000 in a business that eventually led to the business hiring 50 more employees, it would be helping to support 400 people for many years, if the average worker in Haiti supports 8 people. In contrast, think if that person gave $50,000 to create an orphanage in Haiti, of which many are only orphans because their families cannot afford to raise them. No matter how much money one pumps into an orphanage, it would be crazy to think that an orphanage could take care of 400 children, and in this situation, the children would be separated from their families, which is not what anyone wants. Taking it one step further, if someone gave $50,000 directly to 400 people, they could only give them each $125. It is clear that investing in a business is a much more effective way to help people.

Addresses the root causes of poverty. Another reason this solution is best is that it addresses both of the root causes of poverty defined above. By investing in businesses in the developing world, not only are people able to participate in mutually beneficial relationships that align their interests with the interests of those in the developed world, but their self-confidence and perspective will also become more optimistic (Corbett & Fikkert, 2009). This is a natural outcome of seeing an increasing opportunity for the potential of a better life.

Poverty of the mind. In his book entitled, *Toxic Charity*, Lupton writes, “Giving to those in need what they could be gaining from their own initiative may well be the kindest way to destroy people” (Lupton, 2011, p. 4). This bold statement is largely true because, as discussed previously, when an able bodied parent has to rely on others to provide for their family, they are demoralized (Miller, 2015). Thus, pumping capital into businesses in the developing world will help them to grow revenues, create jobs, and restore dignity to mothers and fathers when they are able to provide for their own families.

Sustainability. The final reason why this avenue is better than charity, is that there will be more sustainable and predictable flows of capital when there are mutually beneficial relationships. Many people give money to one organization one year, and money to another the next year. However, if there are good returns from investing in a company in the developing world, no matter who initially invested and withdrew their money, someone would be willing to invest in that company, because people are always willing to do things that benefit themselves.

To illustrate this point of sustainability, consider the true story of a Rwandan village documented in the film, *Poverty, Inc*. After a mass genocide in Rwanda, a church in Atlanta decided that they wanted to help the Rwandan people by sending them a year’s supply of eggs to eat. The heart behind it was pure; there was compassion and empathy towards people struggling after a significant tragedy (Miller, 2015). However, the problem with this charity is that there was an egg farmer named Jean who had started his business the year prior. He had invested money in the tools and supplies needed to run his egg farm and was providing eggs for the community. However, once the free eggs entered the market, Jean went out of business because no business can compete with free (Miller, 2015). Furthermore, the next year, the church decided to focus its efforts elsewhere and left a massive hole in the market because the business that was previously meeting the need of eggs in the community is now out of business. In the words of Peter Greer, a man who talked to Jean himself, “The desire to help that community actually had a long-term negative effect on that community” (Miller, 2015, 47:12).

Consider, now, if the church had taken that money and helped Jean grow his business or assisted in the funding of growing another business in that village. If they did this, there would be an increase in the sustainability of a healthy life in that village. Furthermore, if the church or people pumping money into businesses in that community, or any other community, received a substantial return on their investment, there would be an incentive for others to invest there, so even if the church decided to cash in on their investment and focus their efforts elsewhere, another investor would invest in that business because there is a monetary incentive to do so. In essence, supporting businesses in a mutually beneficial relationship breeds sustainability.

Barriers to Entry

While this idea has promise, there are certainly barriers for investing to occur on a large scale in the developing world. For one, there would need to be transparency of operations and the company’s financials, which would take an external audit, which costs money. Furthermore, there would need to be a regulatory body or legal process that verifies the ownership given to the investor, and that all of the capital makes its way to the company. There would also need to be a secondary market that provides for the buying and selling of shares of the company (Secondary Market, 2020), because liquidity is extremely important in gaining investments. Additionally, in the opinion of the researcher, it is vital to the successes of these investments to make sure that no business sells more than 49% of their company, because the locals know their market and must retain control of the operational decisions. There are many difficulties that need to be faced, but this is certainly something worth pursuing.

Further Research

For this concept to prove fruitful, there are a number of additional issues that must be researched. Can the same platform be used across the globe or are there material differences within countries and cultures that require separate platforms for different countries? Should the platform allow only investments into individual companies, or could it allow for investment firms to create impact investing funds on the platform? How many businesses in the developing world fit the medium-sized criteria, or does that need to be adjusted? What percentage of investors would be willing to invest in these types of businesses? How would these companies be vetted before allowing them on the platform? These items must be researched further before creating this platform.

Conclusion

In conclusion, there are hundreds of millions of people in the world living in extreme poverty, and while there has been significant progress made in places like China, other regions such as Haiti and sub-Saharan Africa, have been left behind. When examining why some areas have advanced their economic state and others have not, it becomes evident that the knowledge of how to escape poverty and the ability to participate in mutually beneficial relationships are two of the most pressing factors that must be addressed. Following that conclusion, one promising solution to poverty alleviation is to facilitate the investment of capital from developed nations into businesses in developing countries. This type of investment will not only allow businesses and investors the potential for great opportunity, but is sustainable as well.

Furthermore, it provides a solution for the root causes of poverty, addressing the poverty of the mind and the inability to participate in global trade.

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