Small Loans. Big Changes.

What is 50/50?

50/50 is a non-profit microfinance organization that helps people start or grow their own small businesses in places around the world where access to funding and training can be difficult to obtain. Working together with our entrepreneurs, we assess which business ideas will be viable based on local circumstances, determine the resources necessary to begin, and provide the start-up funding they'll need to get going. Then we offer basic business tutorials, help them acquire any additional skills and training they'll need, and make sure they have access to the right markets to make their business a success. Funding for our entrepreneurs comes through peer-to-peer lending—in other words, people like you! 50/50 connects people around the world who want to help with entrepreneurs who can put your support to good use to increase their incomes and build better lives for themselves and their families.

How is 50/50 different from other microfinance organizations?

Our approach differs from lots of other microfinance organizations in a number of important ways:

- Whereas most microfinance organizations make funds available in the form of loans (often with very high interest rates that are difficult for borrowers to repay), we take a different approach. **50/50 provides half of the total start-up funding needed in the form of an interest-free loan (which the entrepreneur must repay), and the other half as a grant (of which there is no expectation of repayment).**

- As microfinance has attracted more attention in recent years, many of the microfinance organizations operating today have become for-profit enterprises. In contrast, our goal is not to make money for ourselves, but rather to help people who are struggling start or grow their own businesses that will generate income they can use to provide for themselves and their families. Accordingly, **50/50 is recognized as a non-profit organization with 501(c)3 status.**

- Many microfinance organizations that use peer-to-peer lending act only as middlemen, funneling the donations they collect to other microfinance institutions (MFIs), which are then in turn ultimately responsible for the terms of the loan and collection of payments. Unfortunately, this system has often resulted in poor oversight and serious abuses, including coercive lending and collection practices and interest rates that many of us would find appalling. **In contrast, 50/50 builds relationships directly with the entrepreneur, which allows us to set and follow our own fair and ethical lending practices, minimize overhead costs, and make sure the money is not being misused.**

- Because most organizations are dependent on an existing MFI infrastructure, they are only able to operate in countries where the field is well-established. Under this system, poor people who would like to start their own businesses in many places are simply out of luck—either because their countries are deemed too dangerous or because local authorities have placed hurdles in front of microfinance groups. **However, because of 50/50's light footprint, direct relationships with entrepreneurs, and willingness to go where others do not, we are able to work with entrepreneurs even in some of the toughest and most remote places in the world.**

- In order to lower their exposure to risk, many microfinance organizations lend only to people who already own a business and can demonstrate a track record of consistent earnings. In doing so, these organizations exclude the poorest of the poor—those who are most in need of the opportunities entrepreneurship can offer. **Taking a different approach, 50/50 is willing to work with everyone from the already-successful small businesswoman to the impoverished man who wants a better life for his family but doesn't know how to acquire new skills or put them to use. 50/50 deliberately seeks to match the poorest—and most in need—to new, creative business opportunities designed to succeed through hard work and effort.**

- Many microfinance organizations insist that they must charge entrepreneurs high interest rates in order to cover their considerable overhead and administrative costs. **In contrast, 50/50 is committed to finding ways to minimize or eliminate many costs that other organizations incur by:**

  - **Lowering default rates by building successful businesses:** Many microfinance organizations have high rates of default on their loans. In large part, this is because many MFIs focus foremost on rapid growth and their own profits, expending little (if any) effort on helping their borrowers build successful businesses. When these enterprises hit rough patches or fail, it's no wonder that many entrepreneurs struggle to pay back their loans and default. In contrast, we consider it our obligation to make sure that entrepreneurs build successful businesses. To accomplish this, we give them training, help with marketing, and even run their business alongside them at the outset. Throughout the process, we stay in constant communication with our entrepreneurs to make sure that if any problems arise, we can help fix them and get them back on track right away. By focusing on building successful businesses in partnership with our entrepreneurs, we mitigate the risk of default.

  - **Using technology creatively:** In many developing countries, extremely inexpensive mobile payment systems now allow the transfer of money between people in even the most distant places, allowing 50/50 to send funds to our entrepreneurs, and, in turn, permitting them to make loan repayments without incurring high wire fees or trekking to the closest bank, which is often far away. Simple everyday technologies like e-mail and VOIP-to-mobile phone calls enable our entrepreneurs and our volunteers to be in touch on a daily basis, eliminating the cost of constantly dispatching a loan officer to remote villages.

- **Employing an all-volunteer staff:** Everyone on 50/50's team provides their time and hard work without compensation. When possible, we also call on our wide network of friends and volunteers—among them web designers, attorneys, and accountants—who provide their skills pro bono, allowing 50/50 to save money on items that would otherwise run up hefty charges.

- **Eliminating wasteful practices:** Many charitable organizations accumulate significant overhead costs by spending donations on property, travel, direct mail, calendars, and lots of other items that add up but aren't necessarily central to their mission. At 50/50, we are committed to eliminating these costs when possible, reducing them to a minimum when they're required, and making sure that our resources are being spent on what's really important—helping our entrepreneurs get out of poverty and improve their lot in life.

- **Ensuring complete transparency:** When you support 50/50 and our entrepreneurs, you can do so with full knowledge of where your money is going because of our commitment to transparency. Our entrepreneurs list where each dollar (or shilling, leke, or dinar) is going so that you can understand and evaluate their business plan in detail. And if you decide to invest, say, 30 dollars with one of our entrepreneurs, every cent of your money will go to him or her; not to reimburse a loan that has already been made, and not to 50/50's overhead costs. Similarly, our budget—including how we spend every dollar we receive from you and our other supporters—is posted on our website so that you can always check that your money is being used how you intended it to be.

Does 50/50 charge interest on the loan portion of the funds it disburses?

No. The loan portion of the start-up funding is interest-free.

Why does 50/50 give half the start-up funds in the form of a loan and half as a grant? Why not make the whole amount a loan, or the whole amount a grant?

Our ultimate goal is simple: to help people in challenging circumstances build and manage their own businesses so that, through their own ingenuity and hard work, they can increase their standard of living and gain access to new opportunities for themselves and their families. We have structured our program in the way that we believe has the best chance of achieving that aim. Our view is that the two models that have traditionally been employed to address the problem of poverty—either giving large sums of money away with no strings attached, or relying solely on loans that must be paid back with interest (often at high rates)—have proven flawed and ultimately inadequate in tackling the problem. Instead, we think that our approach combines the best elements of both while avoiding some of pitfalls common to each.

First, we see a few problems with aid as it has typically been given over the past fifty years, that is, frequently with no strings attached and often through an exclusively top-down approach. Recipients of these funds often feel no sense of responsibility for these funds or ownership over what it buys. Because they are simply being given money and are asked for nothing in return, a benefactor-beneficiary relationship is created that prioritizes handouts over hard work and can strip people of the dignity that comes with earning money through labor. Just as bad, this approach has led to reports of waste, corruption, or misuse. All of these factors have caused the "pure aid" method to be re-examined in recent years.

As a response to these flaws, microfinance seemed to hold promise as a very different, corrective approach toward assisting poor people, and it was embraced widely because of its potential to succeed where traditional aid failed. But over time, the original intent of microfinance—a means, motivated by altruism, to provide poor people with capital to start or grow their own businesses—has slowly but surely shifted into something much more selfish and harmful. Rather than helping the poor to achieve something better, the clear trend in the microfinance industry today is toward organizations driven largely by the potential to turn a profit, even if it means that the poor end up worse off as a result. To us, this approach—based purely on loans, especially on loans with high, exploitative interest rates—is unworkable, and often even detrimental to the interests of the poor.

Let's put the situation into context: Imagine that you walk into a bank today and ask about taking out a loan to start a new business. If the bank's loan officer quoted you an annual interest rate higher than 6 or 7 percent, you'd probably walk out of the bank laughing. And yet most microfinance organizations charge entrepreneurs interest rates of 20, 30, 40, or 50 percent or more (some of the worst offenders charge effective interest rates of over 100%)! Moreover, if you were to start your own business and it failed, you would lose a good chunk of money. Certainly you'd be upset and in a far weaker financial position than when you began. But at the end of the day, you would still be able to afford a meal to eat and a place to sleep (or in the worst case scenario, you'd be able to rely on government social services to provide these for you); bankruptcy laws and other regulations would provide you a good amount of additional protection to sort out your finances. That sort of safety net simply doesn't exist in most places where microfinance banks operate. A business that fails—whether it be due to competition, a drought, political instability, or anything else—often means that the microfinance institute that provided the loan seizes a borrower's house and what little possessions they have, humiliates them publicly, and essentially brings their life to ruin. In some especially bad cases, MFIs have engaged coercive or abusive collection policies, leading borrowers to abandon their communities, enter into prostitution, or even commit suicide to escape their debts and their shame.

At 50/50, we believe that our entrepreneurs—who are often starting from difficult circumstances in which a poor crop, a sick child, or even just a tough year can strain their family's finances—ought to be given more, not less, advantageous loan terms than those that most of us are fortunate enough to have ourselves. By combining zero-interest loans and grants, 50/50 creates a true partnership—in the end, half of the start-up funding comes out of your pocket and half comes out of the entrepreneur's—and fosters accountability, responsibility, and dignity while giving the entrepreneur a much-needed helping hand at the outset.

Everyone knows the old adage, "Give a man a fish and he'll eat for a day. Teach a man to fish and he'll eat for a lifetime." The first approach—pure aid—gives him a fish. The second approach—pure loans—gives him the money so that he can buy a rod and some bait, but typically doesn't teach him what to do with it and demands repayment at an interest rate so high that the man would have to catch an incredible number of fish just to keep from having his equipment (along with his house) seized. We're hopeful that our approach gets it right: we not only teach the man to fish, but realize that all the fishing skills in the world won't feed him or his family if he doesn't also have the money to buy a rod, a line, and some bait, along with the means to sell those fish at the market and the time he'll need to turn it all into a successful business.

But I've heard such good things about microfinance. The organizations out there right now can't be all that bad, can they?

There are many organizations out there doing great things today. There are just as many—probably more—that aren't.

We encourage you to learn as much as possible about the microfinance organizations that you're thinking of supporting—in particular, learn what interest rates they (or their partners) are charging borrowers and whether they're giving their entrepreneurs any training or other help to ensure they succeed and don't just end up further in debt. Most importantly, imagine yourself in the position of a borrower in that country—would you want to take out a loan under the terms the organization is offering?

For example, if you had little education or business knowledge, would you be willing to bet that you could earn a 50% return on investment and turn, for example, \$200 into \$300 in just 6 months? (To put things in context, mutual fund managers and hedge funds boast of their success when their annual return on investment exceeds 15 or 20%). Would you still want that loan if the penalty for not paying back the full principal and interest is that the bank will seize your house? Those are the terms of the deal that many MFIs are offering to their borrowers.

Make sure you understand the numbers being cited by the microfinance organizations you're thinking of supporting. Many microfinance organizations report that their default rates are less than 2%. That sounds like an unfathomably low risk for loans being given to poor men and women at very high interest rates. And indeed, those numbers are difficult to believe. Compare the rates quoted by MFIs with those reported by the United States Small Business Administration, which observed that in 2007, 8.4% of its loans were in default; in 2009, that number rose to 11.9%. Studies in Europe have found that similar levels of risk, with small-to-medium enterprise (SME) borrowers defaulting on 6-8% of loans granted.

Why do you insist that the people you work with use these funds to start or grow a business rather than for everyday consumption?

While it may seem incredibly obvious, it's worth stating again because it has often been lost in the larger debate about how to address poverty: the principal problem faced by the poor is that they don't have enough money. We think that too often in microfinance the focus has been on devising a myriad of financial products and services aimed at helping the poor manage their small incomes, rather than on the most obvious—and helpful—approach of all: helping turn those small incomes into larger incomes. No matter how many services are available, the poor will remain poor so long as their earnings minus their expenses leave little or nothing left over for savings or investment. Our focus is on changing that equation.

What kind of businesses has 50/50 helped to start?

So far, 50/50 has helped entrepreneurs start businesses ranging from clothing sales to butterfly farming, from tour guide services to establishing a dairy farm. We are always exploring innovative new business opportunities—some ideas we are taking a look at now include teaching entrepreneurs in coastal areas to grow sponges for sale to cosmetics companies and helping people who live near large bat populations earn income by packaging and selling guano as fertilizer.

In short, the businesses we help our entrepreneurs start range from the everyday to the exotic. Of course, not every line of work is meant for everyone; certain people excel at one business but wouldn't do as well in another. Similarly, what works in one place isn't necessarily a viable business strategy somewhere else. That's why we make sure to work with each individual entrepreneur to find a viable business idea that has the potential to succeed for them.

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Who can get involved with 50/50?

50/50 volunteers and supporters come from all over the world and are of all ages, genders, religions, and professions. We look for people who are energetic and passionate about helping others achieve a better life and who are seeking an effective and innovative way of achieving real, tangible results.

How does 50/50's peer-to-peer lending work?

Because all of our entrepreneurs receive their start-up funding under the aforementioned terms—half as a grant and half as a loan—we treat any contributions that you make to the entrepreneurs the same way; that is, half of your contribution is a grant and the other half is a loan. Therefore, you should be repaid half of your contribution—the loan portion—by the time the entrepreneur has completed his or her repayment schedule. These repayments will be made by the entrepreneur to 50/50, whereupon they will be deposited in the PayPal account you used to make the contribution originally.

Let's take an example. Say you decided to contribute 60 dollars to a sponge farmer who needs a total of 240 dollars to begin her business. When she reaches 100% of the requested funding, the full amount will be disbursed to her—half (120 dollars) as a grant and the other half as a loan. She will then have a short grace period (typically about three months—you can check under each entrepreneur's repayment schedule) before she begins making monthly repayments. Once her first monthly payment is made—in this case let's assume each payment is 10 dollars—your portion of that payment, or two dollars and fifty cents (1/4 of her total funding), will be deposited in your PayPal account. If the loan was for 12 months, the entrepreneur should be making 12 monthly payments of 10 dollars each; each month, you'd receive an equal repayment of two dollars and fifty cents, for a total of 30 dollars (or half the amount you'd originally contributed) by the end. If you like, you can then use that sum to contribute to another entrepreneur, donate it to 50/50 to cover our administrative costs, or withdraw it.

I like 50/50's approach and what you are working to do. How can I help?

Glad you asked—we're thrilled you want to get involved, and we could really use your help. You can get involved by contributing:

- **Your money!** It is amazing what small amounts of money can do to help a man or woman start a business, produce a steady income, raise their standard of living, and sometimes even grow an enterprise to the point that it produces more jobs in their community. Some of our entrepreneurs have started businesses for as little as 80 dollars. Please look around our website, www.fifty50.org, and find an entrepreneur who you believe in.

- **Your time!** Whether you have just a few free hours a month or want to apply to become a 50/50 Associate, we'd love to have your help—there's no shortage of work that needs to be done.

- **Your stuff!** Lots of our entrepreneurs can put your old (but still working!) equipment to good use. Our supporters have given an old camera to a budding postcard photographer in Ethiopia and an old laptop to an entrepreneur who opened an internet café in Zanzibar. If you've got something that you're planning to get rid of and think it might be of use, please get ahold of us.

- **Your miles!** If you've got spare airline miles, we can use 'em! Through an innovative, generous partnership with several major airlines, our volunteers are able to travel around the world—helping our existing entrepreneurs and finding new partners—using donated air miles that are combined together to purchase tickets.