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# Doughnuts Defeating Poverty

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MASUMBA, Malawi

If you want to understand some of the best new ideas to chip away at global poverty, an excellent place to start is the Nasoni family hut here in the southern African nation of [Malawi](#).

Alfred Nasoni and his wife, Biti Rose, have had seven children in this village of Masumba. Two died without ever seeing a doctor. Alfred and Biti Rose pulled their eldest son out of school in the fourth grade because, they said, they couldn't afford \$5 in school costs for a term. And they farmed only part of their 2.5 acre plot because they lacked money for seeds.

Yet poverty is sometimes romanticized, and it's more complicated than that. Alfred, 45, told me that even as his children were starving, he spent an average of \$2 a week on local moonshine and 50 cents on cigarettes. He added that he also spent \$2 or more a week buying sex from local girls — even though AIDS is widespread.

All this hints at an uncomfortable truth: The suffering associated with poverty is sometimes caused not only by low incomes but also by self-destructive pathologies. In central Kenya, a recently published government study found that men, on average, spent more of their salaries on alcohol than on food.

It's a vicious circle: despair leads people to self-medicate in ways that compound the despair.

Yet there are escape hatches. In 2005, Biti Rose joined a village savings group founded by [CARE](#), the international aid group. These “[village savings and loans](#)” are among the [hottest ideas](#) in development work. They now serve some six million people in 58 countries.

After recent financial crises, plenty of Americans love to hate banks, but many of the world's poor don't have that luxury: more than 2.5 billion people worldwide don't have a bank account, according to a landmark World Bank report, “[Measuring Financial Inclusion](#).”

The poor typically receive a pile of cash once or twice a year, at the end of a harvest. They have no good way to save it. That increases the risk that some of it will be squ



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In some African countries, cellphones are emerging as the new banking system. But here, and in much of the world, the solution is savings groups like Biti Rose's. She and 19 other members met weekly and each deposited the equivalent of about 10 cents. The money was then lent out to members, and CARE coached them on how to start small businesses.

With a loan of \$2, Biti Rose started making and selling a local version of doughnuts, which she initially sold for 2 cents each. "People really liked my doughnuts," she noted, and soon she was making several dollars a day in profit. Inspired by her example, Alfred began growing vegetables and selling them; he turned out to be a shrewd businessman as well.

Seeing an upward trajectory in the family fortunes, Alfred cut out the girlfriends and curbed his drinking, he says.

Biti Rose and Alfred then had the resources to buy seed and fertilizer for all their own land and to lease an additional two acres as well. These days, they hire up to 10 farm laborers to work for them. In the old days, they harvested less than one bag of corn a year; this year, their harvest filled seven ox carts.

All savers aren't that successful, of course, but there's no doubt that the nudge to save money and start businesses can be transformative and self-sustaining. CARE moved on in 2009 to take its model to more needy areas in Malawi, but the savings groups around this village multiplied anyway. Other farmers envied Biti Rose and Alfred replacing their leaky grass roof with a tin one, and they decided to start their own savings groups. The idea has even spread, without CARE's help, across the border to villages in Mozambique.

Yet I think there's something going on here beyond microsavings and entrepreneurship. [Esther Duflo](#), an economist at the Massachusetts Institute of Technology and co-author of an exceptionally good book called "[Poor Economics](#)," argues that outside interventions sometimes work partly when [they give poor people hope](#). That's precisely what I've seen in many countries: Assistance succeeds when it gives people a feeling that a better outcome is possible, and those hopes become self-fulfilling as people work more industriously and invest more wisely.

For Alfred and Biti Rose, their hopes are now focused on their younger children (the oldest has married). Biti Rose never went to school at all, but she is planning to send her younger children to university.

She is also planning future purchases, including the first television in the area. But don't think Biti Rose is going to kick back. She sees the TV as an investment.

"I'm a businesswoman," she said firmly. "I can't give anything away. If there's a soccer match

or something, anybody who comes in my house to watch will have to pay a fee.”

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