

On the Frontlines

Less Is More

Financial aid discourages innovative solutions to poverty

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The prevailing orthodoxy when it comes to helping the poor has boiled down to a catchphrase: Give adequate resources to those with inadequate resources.

In our experience, however, flooding a country with financial aid reduces, and sometimes voids, the incentives to find innovative solutions to overcoming resource constraints.

Afghanistan, for instance, has proved a dismal failure in development, despite an investment of some \$20 billion in development funds. Sure, the numbers per capita are small, but at the least, people's living standards should have improved in the capital. But as a group of us recently witnessed, Kabul has no regular electricity (people sleep in temperatures averaging 41 F), sewage runs along open trenches in the city streets, and there is no clean or hot water.

Money flows to Afghanistan have also created inflation and distorted the economy. A year ago in Kabul, a decent office cost thousands of dollars per month. A textile entrepreneur we met could not afford to hire a general manager because nongovernmental organizations had inflated salaries. And a local doctor had given up medicine to chauffeur for an embassy—the pay was better.

Imaginative Tinkering Works

Development efforts dominated by resource-driven thinking caused this

situation. They ignored the possibility that in some situations, scarce resources—precisely because they are scarce—lead to breakthrough innovations and lasting poverty alleviation. Imagine if development aid supported “resourceful” innovation: People making use of whatever is at hand in sometimes bizarre but innovative ways. Development aid should build on local tinkering that already exists and supply the often minimal extra resources needed to scale them up.

In Kabul, for instance, residents had converted old car engines into electricity generators, hoping to provide heat. This technology has a way to go—the engines pollute. Still, residents took a first step toward inventing modular power solutions that focus on the needs of the single family. Development aid could provide the occasional extra gallon of gas and less-polluting generators.

Constraints Spur Innovation

Development aid should also focus on setting constraints that will induce

grassroots entrepreneurship. For instance, rather than building a new factory for women who make home-made jam in provincial Afghanistan, could the women instead produce the jam at home, then brand and distribute it together? That way they would save major investments in a building that may well become a target for those who oppose women working outside the home.

Or consider Haier, China's largest appliance maker. Haier repairmen discovered that small farmers who sold their produce directly used their washing machines not only to launder clothes, but also to clean vegetables. The repairmen relayed this user innovation to product managers, who in turn asked engineers to install wider drainpipes that would not clog with soil and grit. By marketing this innovation and others—including a washing machine optimized to make cheese from goat's milk—Haier effectively spread a resourceful innovation among entrepreneurial farmers in rural China. It also won market leadership in the rural provinces.

Encourage people to be imaginative, and they will tinker with the resources at hand until they've found innovative solutions. We should try this as a catchphrase: Overcome resource constraints by using them to foster innovation. □

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