Effectively Alleviating Poverty Requires Economic Development:

The Role Non-Profits Serve in this Endeavor

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Abstract

The aim of this paper is to analyze the role that nonprofit organizations can play in utilizing economic development to alleviate poverty. The thesis components will be analyzed by answering six research questions (RQ): (1) What is economic development in developing countries? (2) What is the connection between economic development and poverty alleviation? (3) What are some examples of economic development lessening poverty? (4) What are the essential features of a nonprofit organization? (5) What can nonprofit organizations do to create economic development? and finally, (6) What are archetypical examples of nonprofits creating economic development and reducing poverty? To understand economic development, this paper will show that many tools are necessary, including: trade, entrepreneurship, education, and political stability – to name a few. Secondly, it will be explained how these tools can be used not only for growth but even to better the living conditions of every participant in an economy. A few examples of each will be provided. Next, the essential features of a nonprofit organization will be provided. With this comprehensive understanding, the primary objective can be more fully appreciated. The thesis looks at how two of the major tools of economic development – trade and entrepreneurship – can be applied by nonprofit organizations (NPOs) to provide opportunities for the low-income individuals to better their own circumstances. Finally, specific NPOs will be provided that are carrying this vision out in their operations. Throughout this thesis, it will be seen how nonprofits can utilize economic development to alleviate poverty.

Effectively Alleviating Poverty Requires Economic Development: The Role Non-Profits Serve in this Endeavor

Poverty is a difficult and complicated problem. For decades, economists and philanthropists alike have argued over the best methods to tackle this issue. One major concern with aid is its ability to create dependence. As Corbett & Fikkert (2012) prescribe, those seeking to serve the poor must treat the underlying issue and not merely the symptoms.

In their paradigmatic book, *When Helping Hurts*, Corbett & Fikkert (2012) describe the problems of poverty and provide solutions. One key change that they make in their thinking is an understanding that poverty is more than a simple lack of material possessions. There can be many causes to poverty that, without treating, can keep individuals trapped in a cycle.

In an attempt to understand the best opportunities for poverty alleviation, this thesis will take a look at a powerful tool in this endeavor: economic development. For many, it is tempting to essentially throw money at the problem; instead it will be suggested that the best way to alleviate poverty is to equip individual entrepreneurs to make the most of the resources in their own community. Furthermore, to accomplish such a feat, entire companies of people dedicated to this pursuit will be required. What is the role of these nonprofit organizations? That is the fundamental question of this paper. To get there, several questions must be asked to arrive at the proper foundation to understand the problem and the best fitted solution.

The topics of this paper will include: (1) What is economic development in developing countries? (2) What is the connection between economic development and poverty alleviation? (3) What are some examples of economic development lessening poverty? (4) What are the essential features of a nonprofit organization? (5) What can nonprofit organizations do to create economic development? and finally, (6) What are archetypical examples of nonprofits creating economic development and reducing poverty? With this thorough review, the essential understanding will be gained of what nonprofits can do to help the poorest of the world in a meaningful and lasting way.

Essential Components for Economic Growth in Developing Countries

While the applications of economic development can be fairly comprehensive, the goal is not complicated: "Economic development is a process that real capitation of income of a country increases during a long period" (Dehshiri, Tabatabaienasab, & Totonchi 2016 p. 83). In other words, the purpose of these multi-concerted efforts is to substantially and demonstrably increase the total output of a country, over time This value is usually measured in gross domestic product (GDP). How do economists and policy makers attempt this? As Easterly (2001) summarizes, there is no consensus as to what consists of the best practices to increase GDP; and, even after decades of efforts, the only clear answer is what does *not* work. Still, this thesis will here look at the major efforts of countries and economists alike to improve the capital – and, thereby the conditions – of their people. The first of these tools is trade.

Trade. First, the reader must understand the basic features and role of trade: an essential economic principle and a major tool in economic development. The practice of trade can be found almost anywhere. In fact, according to Smith & Goldstein (2016), it is hard to find a civilization that developed without trade; as they conclude, trade must be such an obvious idea that it simply comes intuitively – "like math or music." Truly, trade is a mere exchange of goods; when one party values another individual's goods more than their own, they can trade with the other for something that they have of which the other party does not have enough. For example, if a man has twenty bushels of wheat but only needs ten, it would be better for him to trade his remaining ten bushels with a neighboring woman who has too much tapestry. Ideally, the two parties can come up with an agreeable exchange rate – wheat to textiles – and be able to trade; otherwise, there is no trade. Trade is the essential building block of any economy. Not only does it allow for increased quality of living, but it also further develops into common currencies and specialization of labor. Gwartney, Stroup, Sobel, & Macpherson (2013) explain trade this way: when two people decide to trade their goods, each party benefits from the exchange (p. 21). Additionally, trade allows an estimation of an individual good's value (how much wheat ought to be exchanged for how many textiles); this valuation leads to allocating these resources to those who value them most, which "increases the wealth created by a society's resources" (Gwartney et al. 2013).

As can be seen already, trade is essential to economic development. The basic components of this concept do not change at an international level, although they do develop further. Sowell (2007) explains how the same microeconomic principles hold on the macroeconomic scale. For example, Sowell (2007) explains that there are not "winners" and "losers" to trade: trade benefits both sides, otherwise the trade does not occur (Sowell 2007). Even more interesting on the international level is the economic concept of what is commonly referred to as "advantages" – absolute and comparative. As Sowell (2007) teaches, it is easy for one country to have an advantage: often, one country can make goods much cheaper than another country. For example, perhaps Japan is simply more efficient at producing automobiles – enough so that they could even ship them to the United States (U.S.) and still have competitive prices. For illustration, say that Japan is capable of producing enough cars to satisfy its own domestic demand as well as that of the US. In this case, it would simply make economic sense for Japan to produce all of the cars. To take this one step further, the concept of comparative advantage can explain more incentives for trade between countries. Essentially, even if one country (say, the U.S.) is better at producing any one good than another country (Canada, for instance), that does not mean that Canada has nothing valuable to trade. For that to be the case, it would have to be true that the U.S. were better at producing *everything*, at the same time. However, it is usually the case that even if one country is more efficient in producing every kind of product, it is not the case that they ought to produce everything; instead it is best that they make merely what they are *most* efficient at producing. In short, trade encourages specialization. If the U.S. produces all of the televisions that it and Canada needs, Canada can instead focus production on chairs, perhaps, and each country will end up with more of each product through trade. As Sowell (2007) summarizes "only if the United States produced everything more efficiently than Canada *by the same percentage for each product* would there be no gain from trade" due to a lack of comparative advantage (p. 440). As can be seen from the concepts of absolute and comparative advantage, each country that engages in international trade can increase their net output, through specialization. In this way, trade is an essential tool in economic development.

While it is intuitively true that trade benefits each side, it has been shown empirically that international trade does not always affect both sides equally. Trade theoretically benefits both parties, but it does not always encourage growth. For example, several studies suggest that some countries – those with less developed human capital, financial services, and skilled labor – are less capable of enjoying the full benefits of technology transfer (Majeed 2016; Benhabib & Spiegel 2005; Aghion, Howitt, & Mayor-Foulkes 2005). Technology transfer occurs when one country with limited technological advantage trades with a country with much and thereby benefits from the other country's technological infrastructure. For example, if a country was only able to produce agricultural products, they may not have the factories necessary to make automobiles. This country would then benefit from technology transfer by trading produce for automobiles. Although this country still does not have the technological infrastructure to produce automobiles, they can benefit from another country's factories through trade. However, as mentioned, Majeed (2016) has shown how some countries are not as well equipped to fully absorb these benefits, or allow them to benefit multiple economic agents in the country. Majeed (2016) links this with the country's income equality, reporting that the positive effects of trade on growth does not transfer in countries with high income inequality. Elsewhere, Majeed & Zhang (2014) have shown that these challenges can similarly be linked to GDP-per-person.

Trade can help developing countries in particular circumstances: those with a high level of GDP-per-person enjoy a favorable effect of trade openness on income distribution; however, the impact is unfavorable for those with low GDP-per-person (Majeed & Zhang 2014). These findings run counter to the expectation: the Heckscher-Ohlin (HO) model theorizes that trade between labor intensive countries (or developing) and capital intensive countries (developed) would increase the price of labor.

As demonstrated above, trade is certainly an essential economic tool for encouraging development. However, it appears that its application will be more difficult than first theorized. Majeed (2016) suggests investment in physical and human capital as part of the solution. Also, there is more to economic development than merely trade. Next, this thesis will look at the role that entrepreneurship plays.

Entrepreneurship. Similar to trade, entrepreneurship is a simple and effective tool for economic development, yet one that is quite difficult in application. An entrepreneur is best described as "the founder or owner- manager of a small or medium-sized enterprise with growth potential" (Casson & Buckley 2010). However, as Casson & Buckley continue, the function of an entrepreneur can be more difficult to describe. To encapsulate all that an entrepreneur does, one must include his or her assumption of risk and uncertainty, the part they play as innovator and creator, and even as arbitrager (Casson & Buckley 2010). Many of these qualities, still, point to one essential feature of an entrepreneur: he or she plays as a sort of middleman. In their role as risk taker, they connect workers who produce a good and buyers who want to buy it; as creator, they bring together many inventions of others to make a sellable public good; as arbitrager, they are continually looking for ways to bring cheaper goods to market to undercut the competition. And in each of these roles, an entrepreneur provides a valuable service. From here, it is not hard to see how essential these agents are in economic development.

According to Naude (2010), entrepreneurship is an important instigator for economic development through three main contributions: "employment, innovation and welfare effects" (p. 2). Additionally, Dejardin (2000) tells readers that entrepreneurs are essentially catalysts to development, allowing it to grow faster related directly to the number of entrepreneurs in an economy. Anokhin, Grichnik, & Hisrich, (2008) conclude that “entrepreneurship is the main vehicle of economic development” (p. 117). Lastly, Holcombe (1998) calls entrepreneurs “the engine of economic growth” (p. 60). A major reason for this beneficial role of such agents is the fact that the free market is a good check for government controlled development, which can lead to corruption, rent-seeking, and state capture (Naude 2010 p. 11). In many developing countries, nondemocratic leaders will steal aid intended for the needy. However, when this financial aid is given to individuals instead, it is used in a way that is directly beneficial and often in long-lasting ways. One very interesting experiment showed just this.

McKenzie (2015) studied the effects of a government effort to equip entrepreneurs in Nigeria. The program was very simple. While entrepreneurs requesting aid were asked to submit a business plan, the winners were chosen at random. Unbelievably, results showed that it spurred job creation even more cost-effectively than similar efforts in the US. Again, it is easy to see the effective role that entrepreneurs play in economic development. However, what is even more interesting that this study found was that there was no essential feature of the entrepreneurs themselves or their businesses. It was the capital injection that was the deciding factor. In this way, it can be seen that equipping entrepreneurs could be a very simple and effective measure toward economic development (McKenzie 2015).

The final essential component to allow entrepreneurs in developing countries to make the most of their resources is, again, not a complicated concept. Insurance has been shown to increase the effectiveness of entrepreneurs in their wealth creating efforts. Karlan, Kutsoati, McMillan, & Udry (2011) endeavored to explore their own economic development theories. They surmised that what was holding many individuals in the developing world in poverty was not a lack of skill or even resources, but an unwillingness to assume risk. Of course, there is not a lot of room for error in the production of agricultural products and it can be a scary thing to bet the farm on one crop – even if the farmer believes it will be the most lucrative crop to grow in a particular season. In order to encourage investment by farmers, Karlan et al. decided not to provide the resources themselves, but merely the promise thereof – if anything went wrong. What Karlan et al. began was a plain insurance business for farmers in the eastern region of Ghana: if the rainfall that year was too low for crops to survive, the farmers would receive enough money to make it through to the next planting season. The necessary level of rainfall for a payout was decided before the season began and the insurance check would not be enough for comfort, just subsistence – so there was no incentive to sabotage one's own farm. The findings suggested that the farmers who took out insurance on their crops were more likely to invest in their farm. For example, policy holders spent, on average, 23.1% more on fertilizer than those without insurance (Karlan et al. 2011 p. 46). Additionally, those insured raised 17.5% more eggs and less maize than those uninsured; the relevance here is that eggs are riskier than maize, but both were insured. Lastly, there was a significant difference between insured and uninsured farmers in how they chose to sell their crops: those insured were 18% more likely to take their crops to market (where the price is uncertain) than to sell to "farmgate" sellers who likely lock in their prices early but at a lower rate (Karlan et al 2011 p. 46). In these ways, one can see how insurance can increase profitable investment which increases wealth creation and thereby economic development through the entrepreneur.

Education. The next major tool in economic development to be analyzed is education. Pan (2014) describes globalization as bringing opportunities and challenges; most notably is that the gap between skilled and unskilled workers is growing. What is his solution? Education. As he explains, education – especially at a higher level – can allow for a country's economy to be stimulated and provide for growth; moreover, advanced education can enable participation by said country with the rest of the world economy, which is largely knowledge based (Pan 2014 p. 174). Additionally, as mentioned above, Majeed (2016) suggests that investment in human capital is necessary to make the most of trade. Essentially, what this means is that without the proper education, developing countries will get left behind. If individuals are not on the same page intellectually, it is hard for them to interact, even on business terms. For this reason, it is necessary that developing countries invest in education. Of course, government investment in education may be necessary. Pan (2014) theorizes that a large manufacturing sector of the economy is necessary to make investment in education to stimulate economic development. This is mostly due to the fact that this part of the economy has the greatest need for intelligence – at least, more so than agriculture. For this reason, a cooperative development of educational opportunities and manufacturing businesses will be necessary for economic growth.

Political Stability. The last, but not least important, factor in economic development to be discussed here is political stability. Political stability is necessary for many reasons; in fact, not every reason can likely be listed. Mentioned already is the possibility for corrupt leaders to take financial aid or capital from its neediest citizens. This, of course, is devastating for growth. Also mentioned: the free market is a necessary component of economic development. However, without the proper political infrastructure, the free market can be undermined in many ways, including anti-competitive behavior. As mentioned by Dehshiri, Tabatabaienasab, & Totonchi (2016), political instability will lessen the motivation of investment; also, without proper support, an economy may easily increase inflation. Moreover, political instability will decrease the value of exchange and investment (Dehshiri et al. 2016). In their empirical study, Adams & Mengistu (2008) found that good governance had a positive impact on economic growth and a negative impact on income inequality. Additionally, foreign direct investment (FDI) had a negligible impact on economic growth but a positive effect on income inequality (Adam & Mengistu 2008). Lastly, it is important to note that national information infrastructure (NII) contributes to country development (Meso, Musa, Straub, & Mbarika, 2009). This does so directly by impacting socio-economic development as well as indirectly by its impacts on governance. NII is a necessary step toward sustainable improvement of governance in developing countries (Meso et al. 2009). In these ways, political stability contributes, perhaps indirectly, but certainly strongly towards a country's economic development.

Many essential features of economic development have been reviewed. These include: trade, entrepreneurship, insurance, education, and political stability. With these major features outlined, this thesis will move on to see how economic development is related to poverty alleviation.

The Connection between Economic Development and Poverty Alleviation

Poverty is a very complicated issue – as described above. Economic development of a country at large is difficult, but even fighting the cycle of poverty that traps individuals is not always simple or easily understood. Existence in a state of poverty creates many difficulties on a daily basis. Easterly (2001) defines various misfortunes at the center of living without necessities. These include preventable diseases, malnourishment and underdevelopment, and oppression of the weak of society or those in the minority (Easterly 2001). Dasgupta (1995) adds to this analysis that lack of nutrition and other resources can limit the production of the individual, leading to an ever-deepening hole out of which it is increasingly harder to rise.

In his book, *The Elusive Quest for Growth*, William Easterly (2001) systematically explains each of the “panaceas” of the past and why they failed. One major “solution” that disappointed many – investors and entrepreneurs alike – was the doctrine of “necessary investment.” As Easterly (2001) recounts, it was believed that foreign aid was merely necessary to “fill the gap” that was left without proper savings in a country (p. 23). Similarly, Corbett & Fikkert (2012) mention the example of war-torn Europe after WWII. In order to finance rebuilding, the Allies established the World Bank and “the European economies experienced the fastest growth in their history” (Corbett & Fikkert 2012 p. 49). After this, it was assumed that similar approaches would work for the developing world; on the surface, after all, the situations seemed the same. But, as mentioned above, the problems in the Majority World, at least as understood by the poor themselves, go deeper than the surface – to issues of identity and a loss of meaning (Corbett & Fikkert 2012).

So what helps people break the cycle of poverty? Easterly (2001) would summarize that the solution to poverty could be economic growth, in and of itself. Although this may be a little oversimplified, it is true that a growing country provides more opportunities for its citizens. Dollar & Kraay (2002) found in his research that the average incomes of the poorest 20% of each of the 92 countries he studied rose proportionately with average income over four decades. Again, many of these results were tied to political stability. Additionally, they do not suggest a “trickle down” view which would prefer the rich, in hopes that wealth moves through them to the lower echelons of society; according to their evidence, instead “private property rights, stability, and openness” work together to create a productive environment for impoverished households and every agent to improve their income as well as their contributions to society (Dollar & Kraay 2002 p. 219). Additionally, they found little evidence that transfer payments or government spending on social services, even when large, were able to create a rise in the poor’s income systematically (Dollar & Kraay 2002 p. 219). What their research showed was that as the economy grows, so do opportunities for the poor, along with everyone else; and, accordingly, so does their productivity and thereby their standards of living.

Growth typically increases the living conditions of every participant. Easterly (2001) shows this in a variety of ways. For example, infant mortality decreases significantly as a country grows; it is correlated negatively with a country’s GDP. As Easterly (2001) mentions, a study by Pritchett and Summers that shows this correlation not to be due to a third variable, such as culture; nor, they argue, is it that a decline in infant mortality is causing an increase in GDP. By looking at the effect that export prices – which clearly were unaffected by infant survival rates – had on a country’s GDP and its relation to infant mortality, Pritchett and Summers indeed demonstrated that it was growth of GDP that was causing a decline in infant mortality.

Additionally, Easterly (2001) describes a study done by the World Bank that revealed a negative correlation between economic growth and those in the country living on less than a dollar a day. Countries with positive growth saw a reduction in poverty; inversely, countries that declined instead of growing saw an increase in poverty. Most convincingly, "the fastest average growth was associated with the fastest poverty reductions" (Easterly 2001 p. 14). Easterly hopes that this kind of growth will have positive effects on the problems of disease, hunger, and even oppression in these developing countries.

Still, poverty alleviation is not as simple as a rise in GDP, though this may be central. Easterly indicates that economic growth is very likely to increase the poor's income and Dollar & Kraay (2002) had similar findings, with almost no change in income distribution. The Department for International Development (DFID) published a review that looked at these issues. They had similar conclusions, but made a caveat: encouraging participation is also necessary to make sure the poorest gain advantages of growth. According to the DFID (2008), how much an individual will benefit from economic growth is dependent on their participation in the growth process and how much they can share in its proceeds. In this way, it is important in our attempts to relieve poverty to pay attention to both the pace and pattern of growth. Again, policies that keep sustainable growth central will likely be key. But participation must be included in our models in order to ensure that the poorest are engaged in these opportunities – which will benefit all members of the country. The DFID (2008) recommends that such policies to make labor markets more inclusive aim to remove gender inequalities and increase financial involvement. Likely, no one organization – governmental or otherwise – will be able to fill all the gaps left behind by private companies that provide the opportunities for growth. Later, this thesis will explain what role non-profits can play in linking the poor with the opportunities that they need.

An introduction to economic development has been provided. Moreover, the role it can play in poverty alleviation was analyzed. Now, this thesis will turn to a few examples of where this has worked.

Examples of Economic Development Lessening Poverty

Much of what has been discussed so far is theoretical. While the data behind the ideas is empirical, it is still hard to test. Here this thesis will look at concrete examples of economic development in action, improving living condition for the poor.

As already described, there is debate over which strategies fight poverty most effectively. Hug & Jager (2013), for example, seek greater accountability in the field of economic development. Relatedly, Sachs points to bilateral aid as inefficient because it is unaccountable; instead, Sachs appeals for multi-donor approaches (Hug & Jager 2013).

Easterly (2010) points to private business as “the only real engine for growth out of poverty” (para. 1). Hug & Jager (2013) provide an example of this: Mozambique was experiencing crimpling unemployment, with reportedly only seven of the 50,000 residents officially employed; so, a local business man began to invest in the local economy. He began to grow cashews again after buying an old cashew production facility. With this investment, he directly created 300 jobs and supported 5,000 families as suppliers. Hug & Jager (2013) summarize this effort as “a very clear contribution to poverty reduction”, making mention of grocery stores opening, teachers getting put back to work, and even the construction of an airfield (p. 784). This was just the example for which these researchers were looking; it strongly connected small and medium sized enterprises (SMEs) and their impact on regional development which lead to poverty alleviation.

Trade is a major tool in economic development. This tool also functions well in the poverty alleviation efforts thereof. In his research, Hayashikawa (2009) explains how “aid for trade” is one specific method designed to interlock financial aid efforts and trade policies in pursuit of raised living standards and reduced poverty in developing countries. Aid for trade is defined here as policies which do one of three things: “overcome supply-side constraints” allowing for an increase in productive capacity; allow for opportunities to engage in the benefits of trade for the poor; or, “mitigate the costs of adjustment” (Hayashikawa 2009 p. 23). His work shows that aid for trade can broaden the scope in which trade encourages growth and poverty reduction; additionally, he explains which policy tools best allow for this effect.

To illustrate findings in the effectiveness of aid for trade, a case study in Zambia was analyzed. Seshamani (2006) has shown that Zambia’s agriculture processing subsector has seen growth in both employment and output since opening its door to foreign trade. Not only does this sector provide contributions to GDP and employment, but it also has the ability to benefit the rural poor. Many of these people depend on agriculture for their livelihoods, so a growth of this sector could provide increased incomes as well as access to food. The beauty of such a system is that it relies on small-scale processing businesses, which can be accomplished in the homes of the business owners; in this way, growth in this sector does not necessitate a large investment from individuals. Seshamani (2006) further shows here how this "spillover" mechanism can provide sustainable growth through the agricultural processing sector.

These real-world cases provide examples where economic development leads to poverty alleviation. However, it is important to note that the charity of individuals does not always grow as an economy grows. Themudo (2013) details in his book how the relationship between a country's economic development and its philanthropy is not linear, as may be expected; instead, it is better graphed as a U-shaped curve. Poorer countries have a lot of civic participation and so do rich countries, but not so much in middle income countries. Themudo calls this the philanthropic Kuznets curve (PKC). What is the cause of this disproportionate expenditure of charitable goods? Perhaps it is due to the differing circumstances of low, medium, and high income countries. Often times, it is hard to ignore the needs of the poor in a country where each individual lives in similar conditions; for this reason, charity is encouraged as individuals see the need for giving every day. On the other hand, rich countries may or may not have direct access to understand the needs of the poor, even in their own country; it is very easy to isolate oneself from the needs of others if all the opportunities of wealth are taken advantage of. Still, if one does seek to help others, his or her wealth means that there is a greater percentage of his or her income available for donations. In the middle of these two worlds is the middle income, where one may have all the opportunity to ignore poverty in one's own country and less disposable income to do something about it. Of course, this is a complex concept, but the application is simple: a third party is necessary to encourage and direct giving. Here, attention is given to the role of a nonprofit organization to alleviate poverty through economic development.

The Essential Features of a Nonprofit Organization

As seen so far, economic development is a powerful but complicated tool. In order to properly orchestrate this endeavor, many participants will need to work together: governments, individuals, and private entities. The nonprofit organization (NPO) has a unique position in which it can serve here. Before the role of such a party in economic development can be recognized, a basic understanding of the essential features of a NPO will need to be established.

Warda (2004) defines a NPO as an organization that does not pay dividends to its shareholders but uses its financial capital to benefit the community (in part or whole) through furthering its mission. As Warda explains, incorporating is usually the best form for a NPO to take, for the same reasons as a for-profit company: it limits liability and helps in organizing one’s business. Additionally, incorporating a NPO can open the doors for eligibility for grants and – if the organization complies with the IRS’ definition of “charitable” – allow for tax benefits. Filing as such places the organization under the 501(c)(3) section of the IRS tax code (Warda 2004). These reasons listed above are why most NPOs are classified as with 501(c)(3) status. Warda provides additional advantages as well as an in-depth look at those already mentioned.

The first major advantage of 501(c)(3) status is tax exemptions. As Warda (2004) explains, if a NPO applies for and is granted an exemption, it may not be subject to many kinds of taxes, including: state and federal income tax, sales and use taxes, and property taxes on the real estate owned by the NPO. Secondly, NPOs under 501(c)(3) status can receive tax-deductible donations, meaning that tax-payers who donate their personal income to the organization can write the donation off on their income taxes (Warda

2004). This, ideally, provides increased incentive to give and helps NPOs in raising funds. The third major advantage of 501(c)(3) status is the ability to qualify for grants. These can be both private and government grants. But for many, 501(c)(3) status is needed in order to receive the donation. The last major advantage for being a NPO that Warda mentions is the fact that many NPOs have lower cost structures. For example, the post office offers special rates; additionally, many businesses are willing to provide discounted services to an NPO. As can be easily seen, 501(c)(3) status provides many benefits to an organization.

Peter Drucker has often been called the father of modern management (David & David 2017). Fortunately, this leader in the practice of management has written extensively about NPOs throughout his career. Here, the reader ought to look at what Drucker has to share on the necessities of NPO management. In his book *Managing the Non-Profit Organization*, Drucker provides much insight into the forming of a mission statement, necessary strategies, and efforts to manage for performance in a NPO.

The first step in managing a NPO, according to Drucker (2005), is striving to form a compelling mission statement. To do so, one needs three things: “opportunities, competence, and commitment” (p. 8). As Drucker explains, it is crucial for a NPO – like any business – to set goals. Essentially, this allows every stakeholder and significant player to be on the same page. Much like captaining a ship, the NPO cannot get to where the director desires unless everyone who plays a role is seeking the same destination. As David & David (2017) further explain, “a clear mission statement is essential for effectively establishing objectives and formulating strategies” (p. 42).

Secondly, Drucker (2005) explains that a NPO needs to develop strategies to accomplish its mission. In order to make the most of every resource – time, money, and capital – the NPO's manager ought to develop strategies that will drive the organization to where he or she wants it to be and allow each stakeholder to see how their efforts effect the end goal. Drucker explains that strategies are necessary for innovation, fund development and to launch marketing.

Lastly, Drucker (2005) uses his years of management experience to explain the importance of managing for performance in an organization. It is important that the goals set in the strategies provided by management have certain qualities: they must be defined and planned, be measurable, and be prioritized. Well defined plans allow for substantial review. When these can also be measured, it is possible to decide whether the goals were met; if they were not, the measurement tools can help establish how far off the NPO was from its goals. Drucker expresses the difficulty in such efforts without a financial bottom line. He also recommends that the measurement tools not be inward-looking, lest the evaluation become too bureaucratic. Essentially, if the ways in which goals are evaluated are painted with the colors of the NPO's culture, it can be easy to make the measurements meaningless. Lastly, it can be learned from Drucker that, although it is often not a priority, performance must be controlled and evaluated.

The next component of a NPO that must be considered is its need to raise funds. Most NPOs do not require their beneficiaries to pay for the services provided. For this reason, NPOs depend on donations for the revenue that supports its activities. Already the importance of 501(c)(3) status in fundraising can be seen: with this status, a NPO can offer tax-deductible donations, increasing the incentive to give. As this status hinges on the “charitability” of the organization, “the definition of the word *charitable* is a major factor in establishing the parameters of these laws” (Hopkins & Hopkins 2012 p. 199). The legal definition of “charitable” includes more uses of the word than typically employed. In this way, “charitable organizations” has the potential to mean churches, schools, libraries, and hospitals, as well as organizations with the following purposes: “philanthropic, benevolent,…social advocacy,…environmental, artistic,…and recreational” (Hopkins & Hopkins 2012 p. 200). Therefore, there are many kinds of NPOs that can benefit from a charitable status.

There is more to fundraising than merely legal. It is one thing to qualify for tax-deductible donations and another to convince individuals to give. Therefore, strategies are necessary to encourage donors to raise funds. Foster, Kim, & Christiansen (2009) provide many strategies to encourage donations. First, they point out the difficulty for NPOs: the fact that even after an NPO has identified the best way to serve its community, this is most likely not the means by which this NPO will earn its revenue (Foster, Kim, & Christiansen 2009). As mentioned above, the ones benefiting from a NPO’s services are not the ones providing its revenues. Even if an NPO is great at accomplishing its vision for its beneficiaries, finding funding is a separate step. Fortunately, Foster, Kim, & Christiansen (2009) provide ten nonprofit funding models. The most notable include: the “heartfelt connector”, the “beneficiary builder”, and the “big bettor”. With the “heartfelt connector” approach, the NPO connects with a concern of the larger population and engages the public to support this cause in a way that none others have before. This provides the opportunity to grow large. The “beneficiary builder” looks to past clients for future funds. This tactic is popular among hospitals and universities. Lastly, the “big bettor" approach utilizes major grants from a few individuals or foundations to provide the revenue that the NPO needs. Often, the primary donor is the founder of the NPO who has a passion for the cause. Again, there are many more fundraising models available to a NPO. The right model is specific to the type and size of the NPO.

The next major aspect of a NPO is its dependence on volunteers. Because of the limited expenditure that a NPO has to accomplish its mission, volunteer labor is essential. Volunteers play a similar role as employees in a for-profit company. Research has shown that the psychological contract between paid employees and their employer can be very similar to that between volunteers and their director (Farmer & Fedor 2001). These individuals are needed to accomplish the day-to-day and mundane tasks of the NPO. Although these positions are unpaid, the service has reciprocal effect. Snyder & Clary have shown that volunteers do receive something of value in their service, though it is other than monetary compensation (2004). It is important that an NPO maximizes the satisfaction that volunteers experience in order to encourage return and retention.

Despite the affordability of such labor, volunteer coordination brings with it its own challenges. Liao-Troth (2008) has suggested four organizational models for volunteer program design to encourage engagement: the ad hoc model: the outside agency recruitment/internal agency management model (OAR/IAM); the decentralized model; and the centralized model. According to Liao-Troth (2008), in the ad hoc volunteer program model, contributions from volunteers are typically short term; such involvement will by focused in task forces, study groups, and the like. Such opportunities allow those who would typically by unable to serve through ongoing commitments or direct service delivery to serve in the NPO. Secondly, the OAR/IAM model would allow a NPO to outsource the recruiting by turning to another organization to find the potential volunteers. Still, the onus to place these individuals is still on the parent NPO, as well as the responsibility to manage the program in which they are serving. The third option provided by Liao-Troth (2008) is the decentralized model; here, the specific concerns of each departmental unit are addressed in their acquisition and organization of volunteers; such volunteer initiatives operate independently from the other units. Each program may have very different procedures for organizing volunteers, even within the same NPO; without a centralized coordination, policies and procedures may vary greatly. This may miss out on a few benefits, but still provide an advantage in flexibility. The last option, the centralized model, a staff or committee of designated management oversees the coordination of a highly-centralized volunteer system. Such a program will then need a strong staff as well as the right financial resources (Liao-Troth 2008). With these options, a NPO can find the right model to organize volunteer labor.

The last major aspect of a NPO to be considered here is accountability of the organization. Much in the same way that, in the private sector, investors will not loan to just any company needing capital, donors will not give to a NPO without knowing how that money will be used. Although a NPO may be able to receive a few small donations without proper bookkeeping, donors who desire to give substantially will require significant data on the NPO’s operations. Fry (1995) says that accountability in nonprofit organizations must be considered in its broadest terms: every stakeholder expects to be considered in the operations of their NPO and the evaluation thereof. Accountability is functionally a core aspect of the executive role (Fry 1995). But the definition of accountability which involves financial health and regulatory compliance is lacking: it does not fully picture the NPO's performance (Ospina, Diaz, & O'Sullivan 2002). Kearns (1996) provided insight into the use of a broad strategic management toward accountability. His framework puts the nonprofit manager at the center of strategies for such accountability. He suggests an "accountability environment" wherein the organization's efforts are played out; this environment would include public expectations, organizational goals, negotiation and responsiveness to constituents, donors, and other stakeholders. Of course, measuring such efforts can be difficult. These issues of accountability will be considered further in the next section.

What Nonprofit Organizations can do to create Economic Development

Now that it has been explained not only what economic development is, but also its possibility to alleviate poverty, as well as the essential features of NPOs, one can begin to consider the role of NPOs in this endeavor. NPOs can play a special role in a globalized world. Porter (2003) tells readers that non-government organizations (NGOs) – synonymous with NPOs – became targeted by donors as a more effective route to poverty alleviation in low-income countries, as opposed to the ineffective state governments. This led to their growth in 1980s and 90s. Now, as contractors, NGOs remain a major channel for donor investment; additionally, they may very well be one of the crucial sources of information and expertise on poverty and poverty alleviation (Porter 2003).

Hug & Jager (2013) develop well the role of aid programs and service organizations to provide lasting change in the lives of the poor. As delineated above, entrepreneurship plays an important function in the economy; remember that Naude (2010) summarizes this position in saying that it can spur "economic development through employment, innovation and welfare effects’’ (p. 2). Essentially, entrepreneurship allows an individual to effectively bring together resources in his or her community and bring something of value to the marketplace. Utilizing such a role can be an effective means for NPOs to encourage growth in an otherwise stagnant economy. Economic Development Non-Profits (EDNs) focus on supporting individuals in their entrepreneurial enterprises, believing that economic growth is best for the poor. As Hug & Jager (2013) explain, EDNs not only provide services to clients, but also aim those services in such a way that “the clients are more economically sound” in the hope that “they have greater economic potential to alleviate poverty in their area” (p. 774).

Trade can be utilized by EDNs, as Hayashikawa (2009) describes, by applying the “aid for trade” approach. EDNs serve by using economic growth to reduce poverty, believing that it is the most powerful tool to do so (Hayashikawa 2009). Towards this end, many countries encourage international trade and foreign direct investment to encourage growth. NPOs can do the same. The “aid for trade” approach aims to make the most of aid dollars by using them to bring the benefits of trade to the poor. Aid for trade works much the same way as equipping entrepreneurs: EDNs truly empower impoverished individuals through entrepreneurship by giving them a means to create their own wealth. As discussed earlier, trade between countries can make more of each of their resources. So, if a EDN can connect a community to the opportunities provided by trade, this community will have a real, long-term means to better their own future.

Still, NPOs are not a perfect method towards poverty alleviation, even when using the effective tool of economic development. Balser & McClusky (2005) reveal that keeping NPOs accountable is key. This discussion has been begun above, but it has special application in this area. EDNs specialize in providing trade-promotion services to clients from developing countries. O'Dwyer, & Unerman, (2010) summarize the issue by saying that disparity between donor and beneficiary expectations concerning poverty alleviation is the main reason for poor aid delivery. Balser & McClusky (2005) suggest that organizations will tend to be rated as more effective by multiple external evaluators if they ground their external relations in issues that are recognized as good NPO management and do so consistently across stakeholder groups. If accountability of these EDNs can be made more effective, hopefully, each dollar of support will be better used.

As has been established, NPOs can provide meaningful and long-lasting poverty alleviation by using the tool of economic development. Two simple but powerful ways that EDNs strive to do so is through empowering entrepreneurs and using an aid for trade approach to increase the power of both aid dollars and trade potential. Still, accountability of NPOs must be reviewed to ensure their effectiveness.

Examples of Nonprofit Organizations who are creating Economic Development and Reducing Poverty

In this last section, attention will be turned to some specific examples of NPOs who are using economic development to reduce poverty. The two NPOs to be analyzed here are HOPE International – a Christian microfinance NPO focusing on microenterprise development – and World Hope International (WHI), a Christian relief and development organization.

HOPE International, as described by its founder, "invests in the dreams of families in the world's underserved communities as we proclaim and live the Gospel" (Greer & Smith 2016 p. 223). This NPO does so through providing financial services to families crippled by the cycle of poverty. Its approach is four-fold: they provide discipleship, biblically based training, savings services, and small loans to impoverished individuals in the hope that this will empower them to provide for their families and strengthen their communities. Its method of selection varies across countries and programs, but often the community being helped decides who will receive loans (Business Practices 2017).

The first of HOPE's key tools is discipleship. HOPE sees their work as their fulfilling of the command to "make disciples of all the nations" (Matt 28:19 NKJV). For this reason, their focus is on the transformative power of Christ's message. They provide regular interactions with staff for their clients and thereby share the Gospel and facilitate Bible studies. Secondly, HOPE offers training for the underserved communities that they reach. Many impoverished individuals lack access to proper training or education, so "HOPE's network offers biblically based training, mentoring, and coaching to help clients start or expand their businesses" (Why Christ-centered financial services 2017). Their third tool for economic development is helping their clients to save. Many of those in poverty do not have experience saving their money, so HOPE empowers its clients by teaching them to regularly save money. Such discipline can stabilize their household income as well as help in many other ways. It also gives a bit of a buffer in case of emergencies; additionally, the clients can use their savings to start or expand businesses or pay for school fees or other household expenses. Lastly, HOPE empowers entrepreneurs by providing small loans. Many developing countries lack a proper financial infrastructure. Add to this the riskiness of investing in an impoverished individual, and these people have little opportunity to start their own business. However, as discussed above, this can be one of the most productive means to raise oneself out of poverty. So, along with the proper financial training they provide, HOPE allows its clients access to much needed funds. With this, these individuals “can launch or expand businesses by purchasing productive assets, buying supplies in bulk, improving inventory, or investing in improvements” (Why Christ-centered financial services 2017).

HOPE International provides these services through two primary models: savings and credit associations (SCAs) and Microfinance institutions (MFIs) (Why Christ-centered financial services 2017). SCAs are partnerships with a local church where groups of individuals can save their money together. As this sum grows, it supplies a secure source of money, allowing members to take out loans from their group. The members can use these loans to pay for household expenses or to invest in their own businesses. MFIs can serve in a similar way: they provide financial service to impoverished entrepreneurs. Individuals can be empowered to invest in their businesses and provide for their own families through these MFIs because these small banks can provide loans and a safe place to save.

The second NPO that provides an effective and efficient model for economic development toward poverty alleviation is WHI. As an organization, WHI defines themselves as “a Christian relief and development organization working with vulnerable and exploited communities to alleviate poverty, suffering and injustice” (Who We Are 2016). This organization has many strategies to help the poorest of the poor in developing countries, including those centered around rural and economic development.

WHI’s rural and economic development are structured to equip impoverished communities around the world to make the most of their natural resources for profit and growth. Towards this end, WHI lays the groundwork for entrepreneurs at grassroots and global trading levels (Rural and Economic Development 2016). This NPO has several projects aimed to accomplish these goals. One of these projects is called “FIRST STEP”. Through this project, WHI works with the local government to establish Economic Opportunity Zones that encourage foreign investment through tax and trade benefits; these companies then enrich the community around them through their good and services and the opportunities that the jobs provide. Secondly, Sisters (Adelphe) is another WHI project which aims to empower women through opportunity and education. Another great example of the work that WHI is doing is its Village Partnerships which connects developing communities and churches that can provide the support needed. Lastly, both the Mobile Power and the Integrated Energy Center projects were established to provide clean, affordable electricity to the rural community. With this valuable resource, the communities can continue to grow.

We have seen two NPOs that are working to relieve poverty: HOPE International and World Hope International. Both of these organizations use economic development tools to not only provide aid to their clients, but to give them the hope of a self-sufficient future where they can provide for their own families.

Conclusion

The aim of this paper was to analyze the role that nonprofit organizations can play in utilizing economic development to alleviate poverty. Each of these essential components was analyzed. It was shown that many tools are necessary for economic development, including: trade, entrepreneurship, education, and political stability – to name a few. Secondly, it was explained how these tools can be used not only for growth but even to better the living conditions of every player in an economy. A few examples of such were provided. Next, the essential features of a nonprofit organization were provided. With this comprehensive understanding, the primary objective could be fully appreciated. It was explained how two of the major tools of economic development – trade and entrepreneurship – could be applied by NPOs to provide opportunities for the poor to better their own circumstances. To bring this all together, a couple specific NPOs were provided that are carrying this vision out in their operations. Throughout it all, it can be seen how nonprofits can utilize economic development to alleviate poverty.

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