

A New Framework for Sustainable Development in the Least Developed Countries:

A Practical Approach Emerges from the Conflict between Sachs and Easterly

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"Eradicating extreme poverty continues to be one of the main challenges of our time, and is a major concern of the international community. Ending this scourge will require the combined efforts of all, governments, civil society organizations and the private sector, in the context of a stronger and more effective global partnership for development. "

United Nations Secretary-General BAN Ki-moon

The Situation

Across the world over 1.4 billion people live in extreme poverty, in countries where people do not have access to food, healthcare, education, sanitation, and a safe place to sleep at night (Reuters 2008). Most of the bottom billion depend on subsistence farming for their livelihood and try to raise food for large families on very small plots of land, typically with poor soil, no irrigation or fertilizer with poor results. The conditions of abject poverty tend to lead to a strikingly low rate of children in school because they are required to stay home and help with the farming or take care of an ill family member. This cycle leaves people trapped in their own existence fighting everyday for survival.

There are those who say the West should remove itself from the problem and just stop giving aid entirely, but these proponents forget that it is a global problem. With over a fifth of the world's population living under the poverty line, primarily in countries with aggressive disparity between the rulers and the ruled, poverty has the ability to destabilize entire regions. This effect was seen in Africa when ethnic conflicts in Rwanda and Burundi pushed the two countries even further into poverty. It is impossible for the West to ignore the plight of billions of people whose very existence is a fight for survival. However, it is important that aid initiatives work towards sustainable development and not towards creating nations of people dependant upon aid packages.

In September of 2000 the United Nations membership signed the Millennium Development Declaration formalizing their dedication to development in the world's poorest countries. The declaration identified eight goals to complete by 2015: End Poverty and Hunger, Universal Education, Gender Equality, Child Health, Maternal Health, Combat HIV/AIDS, Environmental Sustainability, and Global Partnership. It

formalized a decade long top-down approach to pro-poor development. The international aid initiative is headed up by three main organizations: The United Nations (UN), The World Bank (WB), and The International Monetary Fund (IMF); each institution with a different responsibility.

It is a dynamic problem, caused by a range of conditions such as history, culture, climate, corruption, and geography and without a straightforward solution. While there are many different ideas about this momentous global issue, two main theories stand out in the modern debate: that of Jeffrey Sachs and William Easterly. However when their theories are compared and tested in the realm of reality, neither of them hold up on their own. Because of the nature of poverty, the solution needs to integrate the ideas of both men into a comprehensive mechanism for stimulating pro-poor development. Based on the assumption that all actors behave for their own benefit, the WB needs to structure economic incentives to align the interests of the donor governments, recipient governments, private sector, and impoverished populations. Only when this has been completed will development aid stop perpetuating the problem and begin to fight it.

The Development Debate

The development debate is long running, but it picked up momentum in the late 1990s when two major players entered the arena: Jeffrey Sachs of Columbia University (previously Harvard University) and William Easterly of New York University (The Earth Institute and New York University Websites). Both of these men have extensive experience in the field working with poverty stricken nations. Based on the similarities

between the two theories, assumptions can be made about the nature of extreme poverty and the conditions that perpetuate it. Their debate posits two opposing approaches before the global community each with its own set of strengths and weaknesses.

Jeffrey Sachs contends that geography is the fundamental cause of poverty because land-locked countries in tropical climates are trapped by disease, climate, and inaccessibility (Sachs 2001). He purports that the bottom billion exist in the “Poverty Trap” that inhibits impoverished communities from developing along with the rest of the world. The trap exists where “there is no margin of income above survival that can be invested for the future” (Sachs 2005, 56). He suggests that trap is composed of constraints such as geography, disease, governance, demography, culture, and a technological gap which keep the country from self-developing. The significant assumption he makes is that most of these traps are not the fault of those trapped. Based on this, he concludes that it is the international community’s responsibility to pull the bottom billion up onto the “ladder of development” (Sachs 2005).

On the other hand, William Easterly’s arguments develop from basic economic principles and conclude that the greatest impediment to development is the governments themselves. While he does not discuss whether or not a actual poverty trap exists, he acknowledges in his book, “The White Man’s Burden,” that the poor exist in an cage that they cannot seem to break free from (2006). He also fundamentally agrees with Sachs that the development community has an essential role to play in fighting poverty.

Based on Sachs and Easterly’s agreement that the people are essentially stuck in the poverty cycle, the assumption can drawn that there is something in the way of their development. The existence of some type of hindrance does explain the problems the

Least Developed Countries (LDC) have in developing on their own. According to history, there seems to be a point at which countries begin to develop. Humanity followed a course into development that indicates the existence of a certain point at which societies evolve into specialized economies naturally. For example, people were historically nomadic hunter-gathers until the development of agriculture, when societies and eventually states were formed around the economy. The development of agriculture is notable because it indicates a time when the people were able to settle down and have a secure food source. Once they could secure a stable level of sustenance, the populations began to specialize into different sectors such as farmers, blacksmiths, and teachers and diverse economies developed from those once nomadic societies. It is around this point when people finally felt secure in their food source that they began to focus on other aspects of life.

I suggest that this is the point at which economies develop naturally, when they get their foot on the “ladder of development.” I call this marker the Sachsian Economic Threshold (SET); the stage where economic development naturally occurs. This fundamental assumption is important because it indicates that there is a point beyond which poverty can be eradicated. Furthermore it acknowledges the importance of the developed world as a source of aid for these trapped countries. If there is a point, below which there is some basic problem stimulating economic growth such as the inability to secure basic nutrition then the development community needs to play some role in helping them over that hurdle.

Both Sachs and Easterly agree that the international community needs to be completely dedicated to the poverty reduction initiative; the debate is how to actually

create change. Sachs' approach is top down and targets utilization of the formal government structure to implement financial reforms and provide the people with basic food, medical, and shelter needs (Review in the Economic Literature). He argues that the people need to be given a certain amount in order to escape the poverty trap and it is the multinational organizations' and donor countries' responsibility to provide sufficient funds for this initiative. Also Sachs focuses on the fact that most of the technology and science already exists to eliminate the main problems in the LDCs, but they are not being used or distributed widely enough. Easterly acknowledges that the top-down approach, adamantly argued by Sachs, has its place in financial reform, emergency relief, etc., but he maintains it cannot fix entire societies. He argues that the corruption of poor countries keeps them in their state of impoverishment because the governments are not acting for the interests of the people. Based on that assertion, the top-down approach that Sachs argues for is flawed because the money never reaches the people who need it. He believes that instead, the private sector should be utilized to approach the problem at the community level rather than nationwide. In this manner, he contends that the people will be able to secure their basic needs and create economic growth from the bottom up.

Jeffery Sachs is a proponent and a figurehead of major economic development plans in which big international organizations give large quantities of money to specific developing states with "plans" satisfying the conditions of the UN aid, known as "conditionality." Those recipient governments are then given the responsibility of using the money to implement reforms to help their people and stimulate growth. He essentially agrees with the statement by a UN commission headed by Sir Arthur Lewis in 1950,

“economic progress depends to a large extent upon the adoption by governments of appropriate....action” (Easterly 2008).

This top down approach is widely contested by Easterly, who concludes that poverty can only be eliminated through bottom-up development efforts headed by “Searchers,” entities operating like the private sector. His position is that grass roots development would be far more successful at creating sustainable development and does not line the pockets of corrupt governments. Easterly argues that a bottom-up approach allows for more efficient distribution patterns, entrepreneurial growth, effective use of aid money and accountability (Easterly 2006). Additionally, Easterly argues for the reform of the United Nations’ practices because there is a complete lack of accountability for all of their programs (Easterly 2006). He concludes that if you look at the history of international aid, the amount of development success we have had in reducing the number of people in absolute poverty has been meager in comparison to the amount of money the West has poured into top-down programs.

Both Sachs and Easterly believe that plans for economic aid should be tailored to the specific area; on the one hand, Sachs wants each recipient country to submit national plans for development from which the UN will select countries to invest in, whereas Easterly believes that the focus should be on much smaller programs based on individual community needs. Easterly states that the weakness in Sachs’ approach is that it does not allow for enough flexibility; instead it forces sovereign countries to create reform plans that include many different actors, projects, and extensive distribution networks. Easterly believes that the free market mentality of entrepreneurship allows civilians to find the answers to their hardest problems given their area-specific constraints (Easterly 2008).

Sachs stated in his review of “The White Man’s Burden” in the Lancet that a bottom-up approach is “piecemeal” and that without any significant scale it could not be successful (Sachs 2006 pp. 1309). Without state and internationally imposed plans the people will be able to develop sustainably without worry about the corruption that Easterly sees as a serious obstacle in big aid plans. Easterly correctly concludes that poverty elimination will be the result of economic growth, but he ignores the basic fact that people need a certain amount of calories everyday in order to have the ability to save and eventually sell food.

Both Sachs and Easterly agree that every person needs the basic necessities of life: food, shelter, medicine, and education, and that the G20 has much more to do in order to make a dent in this wide spread problem (Sachs and House 2009). However, the poverty problem itself is not theoretical and what is truly important is not what Sachs and Easterly say, but how their words translate into a mechanism for poverty eradication. Abject poverty is a serious problem that destabilizes regions and sucks trillions of dollars down the drain every year in ineffective aid. If the current process which follows Sachs’ theory cannot be successfully translated into a real life application then it would follow that Easterly’s theory should be tested as an alternate solution.

Where we are now: Implementing Sachs’ Theories

The implementation of Sachs’ theory takes form in the initiatives and programs utilized by the major aid organizations and so their success and failure correspond to the

theory. According to the data, no sustainable pro-poor development has been created by the UN, WB, or IMF. Sachs' theory in practice has had no success at ridding the world of poverty because it disregards basic economic principles predicting human behavior.

As earlier stated, about 1/5 of the world's population lives on less than \$1 a day and that number is expected to rise by between 50 and 90 million people in response to the global economic crisis (Millennium Development Goals (MDG) Report 2009). The same UN report predicts that the goal of cutting poverty in half will probably be achieved, but that in some regions a disparate number of people will remain in extreme poverty (the bottom 1 billion people). The 2009 Millennium Development Goals (MDG) Report indicates that the proportion of people living under \$1 (PPP) per day in the developing regions has gone from 45.5% to 26.6% in the developing countries by 2005, which indicates significant success. However if you look at the data by country or by region, it is apparent that there is little to no progress in sub-Saharan Africa where 50.7% of the population lives under \$1/day. Additionally if you look at the percentages in the Least Developed Countries (LDC) the percentage has gone from 63.3 to 53.4 which is a insignificant difference in attempting to cut the original percentage in half (Indicator 1.1 Table 1 MDG Report 2009). Each of the UN reports notes the significant decrease (80% to 20%) in the Asian poverty rate; however, they fail to note that this is mainly in reaction to the exponential growth of the Chinese economy which cannot be entirely attributed to the efforts of the United Nations' initiatives (Huang). Based on the United Nations Indicators, there has been no significant decrease in the global poverty level.

Across the globe the percentage of people living without the required dietary consumption for energy has only decreased 2% from 1990 to 2008. In the LDCs this

same indicator still remains high at 34%, a reduction of a mere 5% (Indicator 1.9 MDG Report 2009). Most of the children suffering from malnutrition live in rural communities (except southern Asia excluding India) In Sub-Saharan Africa the rate of productivity has remained stagnant (MDG Report 2009, pp 10). As the UN commission stated, “Labor productivity is a key measure of economic performance.” If the rate is low, it tends to indicate little potential for job growth, wage increases, and further education and training or economic growth. According to these statistics, people are still suffering from an inability to feed themselves and grow economically because they have an unresponsive rate of productivity. Once again there has been no positive growth due to the investments of the international donor community.

Over the last couple of years the international community has suffered from rising food prices and a severe financial crisis; these events have had devastating affects upon the LDCs, bringing almost 100 million additional people into extreme poverty (UN MDG Goal 1 Report 2008 www.un.org). Easterly wrote in a 2009 issue of Foreign Policy that this most recent crash could have severe effects upon the successes the developing nations have already realized. In many of these countries, the government and population are just starting to experience a market economy and an opening of government; and need support now more than ever to continue building their private sector base (Easterly 2008 FP).

The top down approach is clearly not working, but more significantly, the aid organizations have spent billions of dollars annually to no avail. Easterly notes that, “the West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get twelve-cent medicines to children to prevent half of all malaria deaths”

(Easterly 4). Between 2005 and 2007 the net official development assistance (ODA) has increased to about \$100 billion dollars (Kahrass 2007, pp 5). However, much of the ODA is for special purposes and is not utilized for development projects; about \$38 billion is eventually received by developing countries (Kahrass 2007). The remaining funds are used to cover other costs such as administrative costs, humanitarian and emergency relief, food aid, technical cooperation and debt relief instead of development programs (Kahrass 2007). Other aid sources are becoming involved at an exponential rate every year and playing a much larger role which brings total aid flows to about \$180 billion in 2007 (Kahrass 2007, pp. 5). Despite this record, Sachs continues to advocate for more spending to fix the problem. However if the process itself is flawed, adding more money to the pot merely perpetuates the problem.

For example, a major facet of the top-down strategy for development is to get the national governments to implement reforms as conditions to receiving aid money. Generally for a state to receive funds from the WB it must implement “good policies” either fiscal, monetary, or trade designed to increase economic growth (Villanger 2004, The WB website). However recipient countries implement these policies about 50% of the time and yet the WB gives loans out about 100% of the time regardless of individual countries implementation record (Villanger 2004). As Espen Villanger states, this indicates a significant problem for development initiatives because conditionality is seen as a tool in economic growth despite its failures (2004). The IMF’s structural adjustment loans operate similarly; the recipient country is required to accept conditions before receiving loans from the lending institution (IMF Website). Each agreement is unique but the conditions are typically monetary or trade reforms that injure infant industries. The

lesson from these experiences is that forcing changes on governments does not result in successful economic reform but perpetuates the states' reliance upon foreign aid for operation and inhibits any native development successes. Furthermore, the international aid organizations have an inherent problem using their money effectively and are not held accountable for where it goes.

After decades of top-down aid, extreme poverty continues to prevail. Sachs' theory is not successful in practice because it negates the role of self-interested parties and does not stress the importance of bottom-up growth. Basic economic principles state that individuals behave according to their own self-interest. Because poverty is essentially an economic problem, the main actors operate according to maximizing their benefits and minimizing the cost. Sachs' approach doesn't translate successfully because it is based on a structure that funnels money from the aid organization to the recipient government and then the people. The problem with giving money to recipient governments is that those in power have no incentive to adopt new policies. In the LDCs there is a significant disparity of wealth; though the majority of people exist below the daily caloric limit, the political elite are incredibly wealthy (MDG Factsheet). They have no incentive to improve the condition of the masses because any change threatens their power and ability to profit. It is in their interest to take the money from donors and pocket some of it and only distribute enough to keep the people dependent upon the government for their livelihood.

Sachs' approach does not work because dictating from the top inherently makes the problem worse. Pro-poor is a development theory specifically aimed at benefiting the poor through growth rather than exacerbating the cleavage between rich and poor. It

describes a specific type of growth that allows the poor to “actively participate in and significantly benefit from economic activity” (Kakwani and Pernia 2000, pp 3). While there is a strong correlation between economic growth and poverty reduction that is not always the case. For example, during the 1990s the economic growth in Uganda coincided with poverty reduction but current growth seems to be pushing more people into poverty (Kappel and Lay 2004, pp 9) Most groups agree that if poverty is to be eliminated the development effort must directly correspond to jobs for the poor and greater access to necessary goods. This contradicts the traditional theories of trickle-down economics of the 1950s and 1960s which asserts that money flows vertically from rich to poor (Kakwani and Pernia 2000, pp 2). This top-down process has been seen to increase poverty through an increase in inequality.

The Private Sector Approach: Implementing Easterly

The mechanisms of Sachs’ approach is not working and a new process must be implemented if there is to be real progress in the poverty arena. The next option is to review Easterly’s theories of bottom- up development. In order to foster pro-poor growth according to Easterly’s premises the private sector would have to be involved. They have the ability to act as the “searchers” that Easterly sees as the key to finding the right solutions for each problem. In this way the citizens will be able to tap and finance their entrepreneurial spirit which will allow for them to solve their own problems and

eventually climb out of poverty on their own two feet. As Easterly said, it is going to be a gradual process lead by the entrepreneurs of the world, not by the institutions of the West (Easterly 2009).

Since the majority of aid organizations follow the Sachsian approach, there is no current test case for Easterly's approach: therefore a sample one must be constructed in order to test its practicality. The first component of his theory is that a bottom-up approach is necessary to distribute directly to the people without going through the government (Easterly 2006). Furthermore he notes the importance of some system of holding organizations accountable for their spending. Easterly does not give much guidance on how exactly he would set up this system so there are some immediate problems. Easterly states in his book, "The White Man's Burden," that the whole process should not be turned over to the "free market" (5), but the private sector needs to take the leading role in order to create the system he describes.

The private sector is a large network of for-profit companies of varying size that are characterized by their behavior to maximize profit through keeping costs low, increasing revenues, and minimizing risk. These companies follow the basic economic rule: people act for their own self-interest (greed) but, they are unique in their short term outlook. The larger corporations report to their boards and shareholders who are looking to maximize short term profits and would be resistant to risky investments whose returns would not appear for many years. When I discuss the private sector in this paper, I refer to two different, but important groups: the strong established companies across the international market, and the entrepreneurs in the poverty stricken regions. This sector has the ability to affect real change because they do not have the administrative problems

of the traditional aid agencies and they are focused directly on the different markets, not just the interests of the wealthy. These companies are adaptable and efficient, masters at finding the best solution with the lowest cost and highest return. What is truly unique about the private sector and would make it a better option than the governments is accountability . One of Easterly's greatest contentions with the current process is the lack of accountability for the dollars spent by the United Nations. In this way it could have a better application than the current approach. The private sector has gone unutilized, but not unnoticed by the traditional aid agencies.

Oxford economics professor S. Herbert Frankel wrote in 1952, that normal people of poor nations have “peculiar aptitudes for solving the problems of their own time and place.” Typically developing countries have a thriving informal domestic market that supplies what the government does not, the only problem being that it is at an inflated price because competition is minimal. However these small informal markets are composed of microenterprises that allow people to develop incomes to support their families and communities out of poverty. Legal frameworks can develop out of economic growth to help it scale up and become formal as the country gains affluence.

The importance of the private sector, microfinancing, and entrepreneurship is not lost on the United Nations. In a UNDP commission report the secretary general stated that there was an untapped resource in the private sector. In 2003, Secretary-General Kofi Anan created the Commission on Private Sector and Development, he challenged the commission with two questions:

“How can the potential of the private sector and entrepreneurship be unleashed in developing countries?

And how can the existing private sector be engaged in meeting that challenge?”

These are the two key questions in the development debate now as the traditional aid agencies discover that they cannot mandate pro-poor development. The private sector is gaining momentum as people begin to realize that it has the tools and abilities to really stimulate growth. The private sector is a well-known, but untapped source of energy that can jump start a fledgling economy from the bottom-up. Okfam GB, a leading international charity, stated that a private sector allows for “greater possibilities for sustainable development and economic growth that can lead to poverty reduction.”

Microenterprise development results in economic growth from the bottom-up through the informal sphere. Since 75% of people living on less than \$1 a day live in rural communities, it is particularly hard for outsiders to distribute and operate within these markets (The Millennium Development Goals Indicators). Professor Stu Hart from Cornell University stated, “We cannot come from the outside and expect to understand the needs, assets, and capabilities of the poor” (CSR Initiative 2007). However “homegrown” enterprises have the ability to deal specifically with problems particular to that community. For example, in the “Blue Sweater” Acumen Fund CEO Jacqueline Novograts discusses a program for unwed poor mothers in which the women would sell baked goods down at the government offices in Kigali, Rwanda (2009). The women

would work everyday, but the project was still losing money and was subsidized by a charity which did not give the program much incentive to focus on income creation. Novograts helped the women drop the charity and run the program as a profit driven business, she helped them transition into an enterprise and introduce accountability to the employees. The success was astounding once the women were given the tools to transition from a dysfunctional charity to an operational business. Novograts also discusses how difficult it was for her to run the transition because she did not understand the customs and the needs of the market; working together with the women they were able to bring good business practices to a group of women without experience (2009). Small “piecemeal” projects of this caliber have shown to have significant success and really improve the lives of those involved.

One of the clear misunderstandings of the poverty problem is that the poor cannot afford anything and need to be taught how to behave in a market economy. The United Nations Commission Report, Easterly, and other sources acknowledge that the poor are consumers that do not live within a market that is operating for them. The UN acknowledges that the private sector shows potential in its ability to distribute low cost products to a wide range of markets, and actually have the ability to ascertain the specific needs of the poor market segment. There is a lot of room for new companies in this poor market and the barriers to entry are typically finding financing for starting the business regardless of scale (Unleashing Entrepreneurship 2004). Acquiring entry into this untapped market of over 1 billion consumers would result in a significant return for the investing company.

The more private investment that occurs in the bottom billion, the faster the economy grows. The United Nations Commission on the Private Sector & Development stated in “Unleashing Entrepreneurship” that “sustained economic growth reduces poverty” (7). In East Asia and the Pacific a GDP growth of 6.4% correlated to a 15% decline in the poverty rate (using a \$2 a day measurement). In sub-Saharan Africa where there were negative growth rates, the poverty rate increased by 1.6% (Unleashing Entrepreneurship 2004, pp. 7). The United Nations utilizes the private sector in the capacity of infrastructure and market builder already, but the companies are limited by the public-private cooperation and are still lacking a homegrown element. While profit driven businesses are far more likely to discover new ways of distributing goods throughout different regions and tailoring the goods to the specific segment of the market space, at a low cost.

The success of this form of development project depends on how much employment grows and how much the government allows the private sector to flourish. Jobs for the bottom billion population will result in higher incomes for impoverished families and therefore a higher purchasing power for food, medical supplies, and other necessities. Kenyan Prime Minister Raila Odinga stated, “the goal could only become a reality through the successful partnership of both the private and public sectors to fight poverty through creation of opportunities that are likely to economically empower the society” (Xinhua 2009). By giving people the means to change their future they will no longer be dependent upon food and medical subsidies; instead they can begin saving their money. One of the arguments against the private sector is that the inequalities within the targeted society will be compounded as companies bring in businesses, but not jobs. In

Turkey, a study was done of two cities and the one with the highest GDP growth was the one with a private sector that increased employment not just the one that increased the number of employers. This study shows that in the case of Turkey, simply the presence of companies did not result in poverty reduction; increases in employment are correlated with higher economic growth (Yildirim and Canbaz).

The private sector would be the mechanism for targeting the trapped communities because the international organizations could not do it due to sovereignty. Since each of these LDCs is an independent state, they have complete power over their country; to sidestep the national government neglects sovereignty laws. Easterly's approach focuses less on immediate relief and more on stimulating long term growth within the poorest communities. The private sector and the newly emerging NGO sector will be responsible for taking development down a different path towards identifying, financing, and stimulating the entrepreneurial private sector in LDC countries. However, as Sachs contends, this process is largely of "piecemeal" projects and cannot be scaled up to the necessary level that would enable people to take their futures into their own hands. Another critical problem with this application is that it neglects the existence of the SET. Even if the private sector is willing to invest in the small individual businesses, there will be no scale up of the entrepreneurial spirit and therefore economic growth. As long as the majority of people cannot acquire a basic level of food for the energy they use daily they will not spend extra resources to save and sell. For example, the CEO of the Acumen Fund discusses her work with a small women's pastry business and how difficult it was to get the members to stop eating their product or pocketing the revenue because they

were so focused on daily survival that they could not see the benefit of helping the business profit (Novogratz).

Easterly's theory cannot be practically implemented because it relies too heavily on an disinterested private sector. The current aid organizations have already acknowledged the private sector's unique ability to lower costs and find efficiencies where government fails. Yet ironically this is the characteristic that makes the private sector not a practical method of implementation. These projects carry substantial risk because the governments have the ability to nationalize any assets within the country in order to keep power. For example, Cuban President Fidel Castro did just that when he took power. According to international law, this act is completely legal in sovereign nations and is a risk that major companies do not want to worry about when investing in a developing nation. It is for these reasons that the private sector has not yet developed in the LDCs and will never invest the resources needed of their own volition.

Easterly's theory cannot be implemented successfully due to its reliance on the private sector and disregard for the sovereign governments and the state of the impoverished.

Practical Mechanism for Eradicating Poverty

The mechanisms for applying Sachs and Easterly's theories are not successfully operational on their own, though using qualities from both processes a solution is apparent. Given the unique nature of the poverty problem an integrated public-private

solution needs to be instituted that taps the good characteristics of each approach while avoiding the implementation obstacles.

The new approach should not be limited by the top down approach and should stop operating under the false belief that recipient countries have their people's best interests at the heart of their behavior. Furthermore it is very important that the organizations in charge of the initiative to eradicate poverty understand that even impoverished people operate on the economic principle of self-interest. As long as they are repeatedly given food and other basic necessities, they have no initiative to provide for themselves. Within the current system we want to utilize the multinational organizations that have funding and the ability to make risky long term investments. More importantly, the public institutions can interact with the sovereign governments without causing significant problems. Prime Minister Odinga argued for a partnership approach when he argued that, "We will not be able to achieve the Vision 2030 goal unless the private sector takes a central role as the public sector acts as a facilitator in wealth creation endeavors" (Xinhua 2009). The operational solution would integrate these parts of the current process with Easterly's bottom-up concept, tapping the private sector network for its strengths without neglecting the recipient governments' interests and the existence of low caloric levels that inhibit economic growth.

The new framework has three main economic conditions to operate under: the interests of the sovereign governments, the interests of the private companies, and the basic needs of the people. The goal should be to align the interests of the governments with that of their people and to integrate the interests of the international aid organizations with the global private sector. The international aid organizations are going

to be the facilitators because they have the ability to make the necessary investments to stimulate growth. The WB would be optimal for this role because it already operates to help countries control corruption and institute “good policies” (Villanger). While it already has relationships with the governments, it would need to learn how to operate according to self-interest and figure out how to utilize the private sector and the recipients so that each actor behaves to help the UN reach its goal of poverty eradication. They can do this by manipulating the self-interest of each actor toward the same goal. The first step is to incentivize the private sector to invest in the LDCs and then the second step is to motivate the recipient governments to foster economic growth.

The WB can influence the private sector by guaranteeing an upfront as well as long term profit and by assuming most of the risk. The process would begin with the WB identifying specific things that are needed to raise the people’s caloric levels such as a disease-resistant seed variation or a new low cost irrigation process. Once these agricultural needs have been identified then the WB would go to corporations that specialize in these areas, but have never had an incentive to solve the problem because they do not see how it is in their interest to provide these needed products. The WB would invest in these companies to would complete the necessary research and development of the necessary product or service.

For example, Acumen Fund invested in a man with the ability to bring clean water into the impoverished regions of India, but needed the funding to do so. The investment fund financed his venture and helped him contract with Indian government to buy the water from him (The State of Philanthropy 2009). The corporation would be responsible for the research and development, distribution, implementation, and long

term success and would profit based on the success it has each year from the moment of investment. This way the public institution would be responsible for collecting donations from developed countries and charitable organizations, then identifying companies with the ability to help in a specific area and investing in a company. This would mitigate the inefficiencies of the WB because the money would be in a pool solely for this form of investment and then it would be put into the corporation.

Putting the donor money in the hands of the private sector would allow for greater efficiency, accountability, and effectiveness within the pro-poor development process. These private companies or “searchers,” as Easterly dubs them, can identify the true needs of the people, then create and distribute the necessary product; an efficiency which is a major weakness of the major multinational institutions. Furthermore the corporation has its own way of keeping track of its success and by giving them money based on how well their product works and is used, it will be in their interest to make the best product, ensure it is utilized, and follow-up. Using this basic set up, it could be tailored to individual companies based on the incentive they would need to participate. For example, the agreement could be set up as a joint venture between the WB and the corporation; the former would supply the risk money and the later would be responsible for sweat equity. They would agree on commercial conditions that secured the private company’s role in the developing market for the future. The company would be more willing to be patient for their return because they are not responsible for the upfront investment. Furthermore, they would be entering a market not previously open for profits and thus securing themselves a niche when it finally reached the Sachsian Economic Threshold.

The second phase of the mechanism is to motivate the recipient governments to take an interest in the development of their country. Given that governments in LDCs are made up of politicians who see money and power as their motivation, the WB needs to incentivize them. To implement this phase it is critical that funding to the government in question be revoked by all major aid organizations, otherwise the politicians will keep siphoning off resources and thus would see no benefit in growing the economy. After all aid funding has been pulled, the next step is to offer the governments stock, essentially a stake in their own country's economic growth. If the private sector programs are fostered and the country develops economically, then the government makes a return on that success. The governments would then have a choice, to accept the offer and start working with the WB or lose all aid money entirely. It is in the government's best interest to accept the offer or suffer monetarily. With this phase in place, the recipient governments' interests will be aligned with the donors.'

The government phase avoids the practical challenges of conditionality by taking away all upfront benefits and only conferring a return upon success of homegrown pro-poor development policies. It enables the WB to respect the sovereignty of the recipient governments without losing all effectiveness of the aid projects. Furthermore, if economic growth needs to be homegrown to be sustainable, then it is in the international aid community's best interest to motivate those governments to understand the benefits of a developed economy. Economic growth that is stimulated and fostered by the government can be effective and sustainable; China is a perfect example of that potential. Yasheng Huang's proposes that the original development of the Asian Tiger was not the result of Chinese government investments, but stimulated by the loosening of finance and

property laws which fostered the business spread across the state (Huang 2009). By structuring benefits to the recipient governments, the WB can secure the private sector projects and begin developing a foundation for future economic growth.

Success of this framework will lead to greater money flow and ease of scaling. The system is designed to allow for an easy transition between small trial projects and large country wide programs. In the beginning, the WB will need to look at the community level to test this hypothesis. Then if it shows success, it will be easy to simply increase the amount of money to target a full nation. If the WB can be successful and can prove it with hard data, it will be far easier to get governments and charities to donate for the cause. Consequently, success of the project will build larger funds for the scaling up of more projects. This solves what Sachs deems to be one of the greatest problems with the current system, gathering enough money for the planned projects. It also deals with the problems with aid accountability and effectiveness that inhibit international aid agencies from reaching their goal of eradicating poverty by 2015.

This integrated approach to development will allow the WB to create a solution at varying levels without reinventing the wheel for each country. I recommend that it be utilized given select criteria as test cases. Then the WB can take the basic framework and apply it to other forms of the development problem in other countries. To start, the WB should look at four selection criteria when deciding in which countries to test the new mechanism:

1. **Poverty Problem:** The people cannot produce enough food for basic nourishment.

2. **Government and Country:** The existence of a centralized government which has previously shown interest in development initiatives and is not a current conflict zone.
3. **Land and Climate:** The soil and climate need to be habitable for agricultural plant growth.
4. **Feasibility:** The proposed solution is possible to design, create, and implement at this point in time given sufficient resources.

These criteria will enable the WB to test the mechanism and evolve the process before applying it to countries with different problems. The first level of selection looks at the actual problem that is keeping people below the Sachsian Economic Threshold within the select countries. The WB is looking for those countries where there is a fundamental problem producing enough food to supply the people with a basic level of nourishment. This criterion narrows the number of target countries down so that the organization can focus on one main problem while learning how to operate this new development mechanism. Once the list has been narrowed down, the second level of the selection process looks at the overall country and its formal government for a relatively stable centralized system. Because conflict zones are areas of extreme duress, the poverty problem is exacerbated in these regions as more actors become involved, making the system much more complicated. Furthermore, conflict increases risk to the entire project and deterred companies from participating. A central government is needed in some form because there needs to be a sovereign power that has real power within the state to implement change. This way the WB knows exactly what types of companies they are

going to be involved with and the type of work that is going to be needed. Third, the country needs to have a climate and soil that allows plants to grow there is no fix for bad weather or inhospitable soil, yet. This flows directly into the final criterion which stipulates that the proposed solution be possible. Poverty is a Wicked Problem in and of itself; the WB does not need to take on the impossible too. These final two criteria can be done on a community rather than nationwide scale, because starting small is sometimes the only option. Utilizing the four criteria to choose the initial countries, the WB will be able to select countries where change can actually be affected.

In the table below, three African countries are compared based upon the four criteria. Ethiopia, Eritrea, and Burundi are all countries in which a significant portion of the population is undernourished because of agricultural problems, measured by the percentage of the population undernourished and below the poverty line. Burundi is ethnically divided causing recent violence and government instability; this makes it an unsuitable selection. The land and climate of Ethiopia and Eritrea is where the two stand apart. While Ethiopia endures a monsoon climate, a large portion of its land is irrigated while Eritrea has different climatic zones across its topographical regions (CIA World Factbook). Furthermore, the percentage of land that is arable in Ethiopia is higher than that in Eritrea. Ethiopia is a better selection because it will be a more feasible project since there is more naturally arable land to develop agriculture with a more substantial portion of the land already being irrigated. Therefore Ethiopia is the country where the new mechanism should be instituted first.

Comparative Country Chart

	Poverty Problem	Country & Government	Land & Climate	Feasibility
Ethiopia	46.0% pop. Undernourished 38.7% pop. below poverty line	Central Govt.	Monsoon 10.0% arable 2,900 sq. km. irrigated	Good

Eritrea	68.0% pop. Undernourished 50.0% pop. below poverty line	Central Govt. Not conflict zone, but with disputes with surrounding states over borders	Variable Climate 4.79% arable 210 sq. km. irrigated	Possible
Burundi	63.0% pop. Undernourished 68% pop. below poverty line	Ethnically divided government Conflict Zone	Drought and Flooding 35.57% arable 210 sq. km. irrigated	Not Good

*Data from CIA “The World Fact Book” and “Millennium Development Goal Indicators”

After choosing a country, the WB will need to structure the actual incentive program based on the unique qualities and problems of the country. The first step will be to identify some key situations at the community level that are making agriculture unsustainable. Then the WB needs to identify companies with the capability of meeting the needs of Ethiopians. Dupont and Syngenta are both companies that are already involved in developing products to meet the global hunger crisis. They are both large multinational companies with sufficient human capital and development resources to dedicate time to working on development initiatives with the WB. For example, if Syngenta agreed to partner with the WB in a joint venture, it could develop a strain of seed that is able to yield large crops regardless of the amount of water received, and

enable more productive farming in drought ridden land. The bank could create an incentive program stipulating that Syngenta will retain responsibility for the success of their product, but will also retain commercial rights to that product outside the designated boundaries of Ethiopia. Furthermore, the company would be firmly established in the new market once Ethiopia reaches the SEL at which point the company regains commercial rights within the country. The WB would also be able to develop an agreement with the Ethiopian government that would promote growth after pulling other aid. For example, they could offer them a stake in the joint venture with Syngenta and additionally give them a percentage profit based on the growth of GDP. The structure of incentives would have to be adapted to each situation based on the country and company participating, but it has the potential to affect real change.

An integrated incentive-based solution would enable the development organizations to stimulate the poorest of the poor. As Easterly Correctly asserts, sustainable development needs to be home grown and start from the bottom of the pyramid. This new mechanism uses the strengths of the private sector to reach the actual communities in need while retaining the formality of multinational organizations. It approaches the problem as one of incentive structures because it is designed to motivate the various actors to align their interests with the WB. With all the interests moving towards developing the agriculture in a country like Ethiopia, it will be possible to leverage the strengths of each player while not allowing their weakness to sabotage the goal. The private sector is inherently better at communicating with the smallest of markets, developing a product to satisfy their need, and distribute the good or service to the market. The aid organizations are especially bad at dealing with distribution problems

and are not as efficient as the private sector. However they are good at soliciting donations and have the ability to invest in risky ventures for long term returns. Together they could create a powerful poverty eradication mechanism operating on two basic assumptions: that every participant in an economic system behaves in his own self interest and some countries (for whatever reason) need help getting up to the Sachsian Economic Limit; at which point the economy will begin to grow, creating sustainable development.

Conclusion

The poverty problem is a dynamic situation with no easy answer. Debates have raged for years over the possible causes and solutions, only to result in the creation of two prominent camps. Sachs argues that impoverished countries are stuck in a “Poverty Trap” and they need to be supplied with a certain amount of necessities by the international aid organizations and reform their policies to escape. There does seem to be a point at which a country can develop on its own and it would be logical that all those who cannot reach that point are stuck for some reason. The point at which this spontaneous development occurs is the Sachsian Economic Limit and it should be the goal of all aid agencies to enable countries to reach it. Only by helping the bottom billion of the world’s population reach this marker will the people be capable of participating in economic specialization and growth. However, when Sachs’ concepts are applied in the real world they cannot be implemented successfully. While there have been some minute

changes in poverty rates, there are still at least 1.2 billion people living below the poverty line and trillions of dollars are spent on initiatives that never reach the intended recipients. His approach is plagued by corrupt recipient governments, ineffective solutions, and inefficiencies within the international organizations. The top-down approach as implemented, simply does not work.

In contrast, Easterly argues that the only way to eradicate poverty is to provide the tools to the people themselves through “searchers” who look for unique solutions to specific community problems; the end of poverty can only come through bottom-up development. His concept of the bottom-up economic growth to eradicate poverty is well founded, but is impossible to implement successfully. The private sector would have to be involved in Easterly’s approach because they are the “searchers” capable of creating bottom-up solutions. However, because every actor behaves based upon his self interest, the private sector has no incentive to invest in pro-poor development, making Easterly’s theories practically ineffective.

Just because the two major camps cannot come up with an answer is no reason to resign ourselves to the status quo of useless spending and unimportant public debate. Instead, an integrated development mechanism should be implemented by the WB. It should utilize the strengths of Sachs and Easterly’s theories to raise people to the Sachsian Economic Level, from the bottom-up. Countries for this program will be selected based on four criteria that determine whether the country has an agricultural problem that could feasibly be solved with this mechanism. The solution uses structured incentives to align the interests of the donor organizations with the private sector, recipient governments, and the bottom billion people. It will work where the other

systems failed because it is based on practical economic theory and utilizes the best of both camps to create a mechanism that can be applied into the real world.

The global poverty problem is not one which will go away if money is thrown at it; that solution was tried and it did not work. Now is the time to try an integrated adaptable solution. Using the strengths of the public and private sectors, the international aid community has the potential to create sustainable momentum. Only with a new approach to the mechanism of eradicating poverty will there be global stability, a reduction in the reliance on aid, and the growth of new markets; only then will the 2015 Millennium Challenge Goals become reality.

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