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Attacking Poverty: Do We Know How?

More than thirty five years have passed now since William and Elizabeth Paddock published a book with the provocative title, *We Don't Know How: An Independent Audit of What They Call Success in Foreign Assistance.*[2] In it the authors reported on fieldwork they had conducted in Mexico and Central America, and concluded with the following indictment:

> In my research I learned two things:
>
> First, development professionals do not know how to carry out an effective economic development program, either a big one or a small one. *No one knows how*—not the U.S. government, not the Rockefeller Foundation, not the international banks and agencies, not the missionaries. I don't know how. You don't know how. No one knows how.
>
> Second, we don't know that we don't know how. Those who give the money are thousands of miles removed from where it is spent. No channel is provided whereby they can get unbiased opinions about their projects in the field in place of the usual fulsome reports of "great success." One barrier to this is that those who exercise their profession in the field…soon acquire a Messiah complex. To wit: a corn breeder in Iowa does not talk about his program SAVING Iowa. But a corn breeder who goes to Guatemala does talk of his program as saving not only Guatemala but all Central America and maybe even all the tropics… Add to this the fact that our aid programs maintain no memory banks. Both the files and the personnel are ignorant of previous

> programs, ignorant as to the reasons why they were started, ignorant as to what the prevailing conditions were then, ignorant as to why they failed and were abandoned.
>
> The result: We do not know that we do not know how. We have no knowledge of our own ignorance.[3]

The Paddock book is only one link in a chain of indictments of foreign development assistance over the years.[4] Foreign aid has been, is, and most likely will continue to be a target of criticism. The disconcerting feature of today's debate, however, is that it does not look like very much has changed. If one believed current critics, the only difference between 1973 and now is not that development practitioners now know how, but that they now know that they do not.

The leader of today's charge is William Easterly. An ex-World Bank research economist, Easterly has written two books currently much in vogue, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* and *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*.[5] Easterly writes and speaks articulately and, as an ex-insider, argues his case with authority. But whereas Easterly has succeeded in dismantling a lot of development castles—that is, in showing what does not work—he has not succeeded as well in constructing a solid edifice in their place—that is, in showing what does. His distinction between Searchers and Planners—to which this book returns below—is a very useful contribution to development thinking, but most readers come away from the two books somewhat frustrated, asking, "Is that all there is?" As one reviewer of his second book put it, "Easterly is doing something harder here: not merely cataloging past failures but trying to suggest a more promising approach. Unfortunately, his alternative is still underdeveloped, devolving at time into slogans."[6]

"It is astonishing that we still know so little about what sort of aid works. Donors—and their critics—are too quick to embrace the latest fashion and too slow to ask the hard questions about what really works in development. Perhaps they feel they already know the answer, or perhaps they are afraid of what might be revealed."

Editorial comment, "Poverty: what counts," *Financial Times*, FT.com, August 15, 2006.

This book, consciously entitled, *We Do Know How,* makes no pretense to have all the answers, but it does go well beyond slogans. It presents a proven, practical approach for creating jobs for poor people—normally a necessary first step for them to escape from poverty.

Money Matters, but So Does the Approach

At the United Nations Millennium Summit in September 2000, 189 nations of the world established eight Millennium Development Goals for achievement by 2015. The goals are:

Goal 1: Eradicate extreme poverty and hunger
Goal 2: Achieve universal primary education
Goal 3: Promote gender equality and empower women
Goal 4: Reduce child mortality
Goal 5: Improve maternal health
Goal 6: Combat HIV/AIDS, malaria and other diseases
Goal 7: Ensure environmental sustainability
Goal 8: Develop a Global Partnership for Development

In contrast to declarations in the past, each goal has time-bound and measurable targets. For the first goal, that of most interest here, the targets are:

Target 1: Reduce by half the proportion of people living on less than a dollar a day
Target 2: Reduce by half the proportion of people who suffer from hunger

At first glance, setting poverty and hunger reduction targets would appear a laudable proposition: quantitative goals presumably signal that the parties committing themselves are prepared to hold themselves accountable for results. Results, however, fail to bear that presumption out. If one looks at progress to date—and especially if one excludes China as a special case, only the most sanguine of observers would wager that the world community will come close to meeting its poverty and hunger reduction targets by 2015.

Most discussion of the Millennium Development Goals in recent years has focused, not on how to meet targets, but on whether governments are backing up their moral commitment with financial ones. Little has touched upon why in fact there has been so little progress. There is no development paradigm at work that says if you do x, you will get y, but simply the hypothesis that if you spend more, you will get more. In the end, the bulk of the underlying thinking comes down to perpetuating the status quo: do what you have always done, but spend more on it.

> "So the case for extra aid is solid. It matters a lot, however, how the money is spent."
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> Editorial, "Fighting Global Poverty," *Washington Post*, January 20, 2005, p. A24.

Jeffrey Sachs has perhaps been the most vocal of the proponents of massive increases in financial support. In contrast to those preoccupied only with funding, Sachs can be extremely eloquent in advocating a comprehensive package of support to address an expansive array of poor people's needs. In his best-selling book, *The End of Poverty: Economic Possibilities for Our Time*, in fact, he argues forcefully that nothing short of a "Big Push," primarily in health and education, will pull the developing world out of poverty.[7]

As one might expect, Easterly has challenged Sachs, arguing that spending more money will not necessarily bring about the reductions in poverty desired.[8] Easterly also made much the same case in an open letter of advice to Bill and Melinda Gates and Warren Buffett on how the Gates Foundation should spend $60 billion on development in coming years:

> **It's not about the money.** The misguided media reaction to the Gates-Buffett union was, quite predictably, all about numbers: Warren's $31 billion gift, which roughly doubles the size of Bill's foundation to about $60 billion. Welcome to foreign aid wonderland, where it's always about the spending, never about the impact…
>
> Alas, aid flow reflects the cost of providing services for the poor, not the value of those services. Would Microsoft Corp. promote an executive who bragged about setting a

record for costs? Would Berkshire Hathaway invest in a business that headlined its remarkably high spending on office supplies?[9]

It would be incredibly naïve, of course, to claim that outside moneys cannot help reduce the numbers of the world's poor. On that score, Sachs's focus on financial support is certainly on target. But Easterly is also right. How one spends that support can make all the difference.

Managing effectively for results means making yourself accountable for what you accomplish. It also means measuring the progress you are making, not only to report your triumphs but to learn from and correct your failures.[10]

Like the international community with its Millennium Development Goals, development programs like to hold themselves accountable for what they do, not for what they achieve, making the result of their work a matter of faith. Raising the bar to measure results not only makes much more sense development-wise, but is also wise management practice. If development programs say they shall accomplish something, they need to hold themselves accountable for it. More than that, if things are not working, they need to have the empirical base to understand why not, and to make required mid-course corrections.

> "'This is indeed a mystery,' I remarked. 'What do you imagine that it means?'
>
> 'I have no data yet. It is a capital mistake to theorise before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.'"
>
> Sherlock Holmes and Dr. Watson, "Power and Influence."
>
> James Ruddick, *Death at the Priory: Love, Sex and Murder in Victorian England* (New York: Grove Press, 2001), p. 85.

In the parts that follow, this book describes one proven way development practitioners can create jobs for poor people, usually a precondition for reducing poverty. Unlike the Millennium Development Goals, the modest approach presented here comes with a paradigm of development that lends itself to operational accountability. It demonstrates how development programs can set realistic targets, build in incentives for managers to meet those targets, and hold them accountable. In short, this book presents an approach that delivers results—see Part II for evidence on that score—and does so cost-effectively.

Get Your Hands Dirty

In the popular mind, globalization is arguably the biggest challenge to combating poverty, and just the word can be a lightning rod for heated debate. Although the arguments for the gains to trade are compelling, none of those arguments hold much credence for those cornered by increased competition or bereft of the jobs they had held for years. As Thomas Friedman put it in *The Lexus and the Olive Tree*, his generally upbeat book on globalization:

> [G]lobalization also presents an unprecedented challenge: While it is the engine of greater long-term prosperity for every country that plugs into the globalization system, it is also the engine of greater dislocations in the short run. And it is not enough to tell a factory worker who has suddenly lost his job to a lower-wage factory abroad that, while unfortunate, our society as a whole is better off because it can now purchase the steel or tennis shoes he once made at a cheaper price. It is not enough to tell the office worker whose job has been phased out because of the installation of a new computer system that, while unfortunate, our society as a whole is better off because it will be much more productive with that new network system installed. The benefits of globalization tend to be measured in the long run, and for society as a whole, but the dislocations come immediately and for specific individuals who know they have been hurt.[11]

If resistance to globalization is strong in the developed world, then all the more understandable is the skepticism in poor countries that face formidable obstacles to plugging effectively into the world economy, whose productive apparatus is ill equipped to transition from protection to open competition, and whose safety nets to protect the poor are embryonic in comparison with those in richer countries. Former Peruvian President Alan García made the point in a speech to the Institute for International Economics:

> I'm for Free Trade. But something has always bothered me about it: Free Trade has never been very successful at helping poor people. It's as if there were two parallel lines: Free Trade on this side; and over here, are the poor—and never the two shall meet. Yes, we live in an increasingly globalized world; yes, international trade is very good at generating wealth. But the trouble with Globalization—so far—is that it's not working for most of the globe: It is leaving out four billion of the world's people, eighty percent (80%) of the planet. As a President who has promised to deliver economic benefits to all Peruvians, that disconnect between trade and poverty bothers me.[12]

Academic economists would be quick to jump in here, arguing that through the linkages it forges between global buyers and local producers, trade can indeed be an effective channel to reach and benefit the poor. Problematically, most of the evidence supporting that claim depicts aggregate changes that take place over a period of time. The short run—the world in which both politicians and the poor spend most of their time—is very often another story. For a dramatic case in point, one need look no farther than India's parliamentary elections in 2004. By virtually all macro-economic measures, the country was booming, which one would have expected to give an edge to the government in power. But the government lost. Poor people, frustrated at failing to see the benefits of growth, cast their votes elsewhere.

Three years later, the tide of electoral change showed a similar pattern in Latin America, as voters, fed up with promises that markets would solve their problems, opted for candidates more amenable to delivering goods and services directly to the electorate. For many of the world's poor, the time has come to shift from "trickle-down economics" to governments that promise to do something for them now.

"Sant Raj, 29, switched his vote because the governing party had changed nothing in four years: 'I labored to eat then, and I labor to eat now.'"

"Those Left Behind Turned Indian Vote: Poor Say Economic Boom Was Just Rhetoric," *Washington Post*, May 15, 2004, p. A12.

The development community does not appear especially well armed to operate effectively in a short-run environment. For example, in its 2002 book, *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, the World Bank proposes an "agenda for action" to help make globalization work better for poor countries and poor people.[13] The agenda consists of seven items:

A "development round" of trade negotiations
Improving the investment climate in developing countries
Good delivery of education and health services
Provision of social protection tailored to the more dynamic labor market in an open economy
A greater volume of foreign aid, better managed
Debt relief
Tackling greenhouse gases and global warming

Although there is nothing objectionable about any of these items, their very wording raises disturbing questions. First, put yourself in the shoes of the poor people whom these actions presume to affect. For them, the connection of the action agenda with the problems they face day to day is indirect, to say the least. That would not be so bad if one-size-fits-all solutions addressed their problems effectively, but as any on-the-ground practitioner can attest, the problems in question evidence substantially more heterogeneity than uniformity. The solution to one of the poor's problems—lack of access to finance, say—may bear no relation whatsoever to the most binding constraint of many others—no buyers, for example. The actions proposed by the World Bank are fine as far as they go, but they do not go far enough. Second, and in a related vein, the agenda places an almost exclusive premium on policy and institutional reform. Policy and institutional reform is essential, but, arguably, simply not enough—by itself—to make a dent in the problems of substantial numbers of poor people. On reading the World Bank's agenda, one cannot help but be struck by the almost complete absence of guidance on how actually to go about interacting with the poor. Yes, the agenda does acknowledge, almost in passing, that action programs are important, but it shows little appreciation that the kinds of action programs one chooses, and how one implements them, make any difference. On how to link poor people with markets in a practical way, the document is almost entirely silent. Third, to the extent that the document does talk about action programs, it focuses primarily on the delivery of social services like health and education and the compensation of the "losers" from globalization. Those challenges are important, obviously, but it would have been nice if the Bank had offered some practical guidance on how to help the poor connect with markets themselves and emerge as winners from that process. Put another way, the agenda emphasizes the need to generate employment, but it says precious little about what measures to take—aside from broad policy and institutional reform—to make that happen.

USAID's most recent strategy for economic growth reveals a similar bias toward systemic, one-size-fits-all, above-the-fray approaches:

> **Programs should seek large and systemic impacts.** The success of a few firms, farms, or communities is not enough. The goal is growth that affects thousands of firms and millions of people. This typically requires improvements in policies affecting all businesses within a sector or across the entire economy. This means that USAID will generally not finance development directly, but will seek instead the systemic reforms that can mobilize much larger savings and investment by others.
>
> **Where systemic reform is not achieved, catalytic impact is essential.** Demonstration projects can be valuable, but they should either demonstrate approaches that cause a far larger number of people or firms to follow suit without subsidies, or should have the clear potential to catalyze policy or institutional changes with a much wider, systemic impact.[14]

Although USAID does in fact finance hands-on programs around the world, it is somewhat disconcerting that official policy views them more as back-up—a Plan B, if you like—than as an integral part of the Agency's strategy for stimulating growth and attacking poverty. Not only does an approach that gives almost exclusive priority to systemic reforms fail to account for the tremendous differences among firms, farms, and communities in the binding constraints that thwart their growth. It also fails to recognize that generating successes directly with firms, farms, and communities can actually be pivotal strategically to leverage copycatting on a broad scale. More than that, working at the micro level can also elicit bottom-up intelligence on the relative importance of different policy and institutional issues so that those who work on systemic reforms can focus on those that will in fact make a difference.

None of this criticism is to deny the key role of policy and institutional reform. For example, opening developed countries' markets to more developing country products holds immense potential. So too do reforms that improve developing countries' investment climates. In both instances, though, it could take years to shape the reforms in question, put them into effect, and see measurable declines in poverty. And if experience is any guide, many of the reform initiatives in question could abort along the way. Most policy and institutional reform called for today—what economists call "second-generation reforms"—is no easy task. As Friedman notes:

> These so-called "second generation" reforms needed to produce an emerging society take a lot more patience and hard work. "In the old days," a World Bank official once said to me, "you came into a developing country and you went to the governor of the Central Bank and you had one simple piece of advice: 'stop printing so much money.' Then you went over to the Minister of Finance and said, 'stop running such a big budget deficit so your Central Bank can stop printing so much money.' In other words, all you had to do was talk to two people and give two simple messages. But now we know that a lot more is required." And in order to get these second-generation software reforms in place, which really transform a country from an emerging market to an emerging society, you need to involve many, many more actors and it requires a much, much wider political consensus.[15]

On balance, the recipes proffered by much of the development community for making globalization work for the poor—and the action agenda proposed by the World Bank is just an example—offer no panaceas, certainly not in the time frame in which today's electorates want results. For those on the front lines of development, the World Bank's agenda is too macro and, at times, almost platitudinous. To make a dent in poverty, development practitioners cannot afford to stay above the fray, but must come down to micro earth. The devil is in the details, as they say, and in this case, at least, practitioners must do the devil's work.

This book presents a micro approach to generating the jobs required to reduce poverty. First, it shows how to link the poor effectively with markets, both domestic and international. Second, it shows how individual business transactions are the vehicle for forging those linkages. Third, it shows how to support—and how not to support—such business transactions. Fourth, it shows how working with individual businesses to solve their problems can trigger development that is transformational in scope and serve as a ground-truthing mechanism for setting policy and institutional reform priorities. The book spells out an approach that comes not as a solution looking for a problem, but as a flexible, disciplined way to tailor solutions—both transactional and systemic—to the business problems that act most as a brake on boosting sales and expanding jobs for poor people.