Wesleyan University The Honors College

Facilitating Development: The Potential of NGOs, Corporations and the U.S. Government to Alleviate Poverty in Kenya

by

Julien Burns

Class of 2010

A thesis submitted to the

faculty of Wesleyan University

in partial fulfillment of the requirements for the

Degree of Bachelor of Arts

with Departmental Honors in Government

Middletown, Connecticut April, 2010

TABLE OF CONTENTS

ACKNOWLEDGEMENTS

This project would never have been possible without the help of a host of people. First and foremost, thanks to my friends, co-workers, students, and the rest of the community in Kakamega, Kenya that welcomed me into their world and into their homes. The opportunity to live among them was inappreciably valuable both to me personally, and to this project.

Thanks also to the incredible support network here at Wesleyan and in Vermont. My family, friends, and thesis-crazy roommates have all been wonderful in helping the process of writing this thesis manageable and as stress-free as could be hoped.

Finally, thanks to my advisor, Professor Michael Nelson, whose dedication to supporting this project was inspiring and who was a fantastic guide through the process.

April 13, 2010

CHAPTER I - INTRODUCTION

"Looking ahead to 2015 and beyond, there is no question that we can achieve the overarching goal: we can put an end to poverty…But it requires an unswerving, collective, long-term effort." United Nations Secretary General Ban Ki-moon (MDG 2010).

Can the U.S. Government, charities, or U.S. multinational corporations best facilitate this change? If we want to help protect Kenyan forests so that they can be a resource to Kenyans trying to escape poverty, do we turn to USAID, the Rainforest Alliance, or ExxonMobil?

This project is predicated on the idea that the collective effort referred to by Secretary General Ban extends beyond the United Nations, beyond aid agencies, beyond governments, to individual citizens. Those of us who are privileged to live in developed countries, in particular, have a unique responsibility to be a part of this endeavor. With a per capita income over thirty times that of Sub-Saharan Africans (HDR 2009 and UNSTATS), Americans have incredible resources at our disposal to impact poverty in that most disadvantaged region in the world. With an ocean

separating the two, however, many Americans who are resolved to answer the Secretary General's call do not know how to do so. This paper seeks to explore some of the more conventional options for combating poverty available to motivated citizens, as well as some that are less common, in order to try to understand where the greatest potential for making an impact lies.

Since the end of the Second World War, when the idea of development assistance first took hold, the dominant answers to the problem of entrenched poverty have been foreign aid and international charities. But after decades of African growth lagging behind the rest of the world, critics began to emerge. Initial critiques focused on corrupt organizations and out-of-touch leaders (Hancock 1989, Klitgaard 1991). More recently, and after significant changes in the development sector, Jeffrey Sachs (2005) argued that greater resources, if better allocated could solve the problem.

In response, a number of authors have questioned the fundamental ways in which development assistance is conducted. William Easterly (2006) argues that any type of top-down approach or planned assistance qualifies as neocolonialism and is inherently counterproductive. Paul Collier (2007) downplays Easterly's argument and instead focuses on allocation of aid and its failure to reach the poorest. Finally, Dambisa Moyo (2009) claims that aid as it currently exists undermines the governments and markets of host countries and thus contributes to poverty, rather than reducing it. All of these authors make formidable arguments, which are also

highly controversial. The vein that runs throughout is, in Easterly's words, "Sixty years of countless reform schemes to aid agencies and dozens of different plans, and $2.3 trillion later, the aid industry is still failing to reach the beautiful goal" (Easterly 11). The beautiful goal, of course, is the end of poverty. All of the authors believe this goal is attainable, but they disagree vehemently on the solution.

This leaves ordinary Americans in a predicament. How does one help fight poverty in Africa when the development assistance system is perceived to be broken and the solutions are unclear? It is not my opinion that the system is entirely broken, but the legitimate concerns of Sachs, Easterly, Collier and Moyo suggest that there may be other ways to go about making an impact. The physical separation of Americans rules out direct action, but there are other organizations that ordinary citizens can influence. Perhaps by bypassing aid agencies and focusing instead on supporting or reforming other organizations, Americans can have a greater, less controversial impact than what they could achieve through more traditional means.

In this project, I assess the foregoing argument by comparing the impacts on poverty and potentials for change of three organizational types: nongovernmental organizations (NGOs), multinational corporations (MNCs), and government organizations (GOs). NGOs and GOs are traditional actors in the aid industry, and MNCs provide an alternative type of organization. The core questions I address are: 1) what are the current impacts of NGOs, MNCs, and GOs on African poverty? And 2) what is the potential for these organizations to improve those impacts? There is

also a third question that needs to be answered in order for Americans to know how to have the greatest impact, which is: how easily and to what extent can Americans impact NGOs, MNCs, and GOs, respectively? This third question, however, is outside the scope of this project and must be addressed in future research.

The Field of Poverty Alleviation Research

"Currently, more than eight million people around the world die each year because they are too poor to stay alive. Our generation can choose to end that extreme poverty by the year 2025." (Sachs 2005, 1)

Thanks to the work of advocates like Jeffrey Sachs, global poverty is a well-known fact. Powerful statements like this one have brought poverty to global consciousness, and mobilized people and resources to eliminate it. In the last few decades, billions have emerged from poverty as global GDP has steadily climbed (Collier 2008). Africa, however, has in many ways been left behind.

> *With an average per capita income of roughly US$1 a day, sub-Saharan Africa remains the poorest region in the world. Africa's real per capita income today is lower than in the 1970s, leaving many African countries at least as poor as they were forty years ago. With over half the 700 million Africans living on less than a dollar a day, sub-Saharan Africa has the highest proportion of poor people in the world – some 50 per cent of the world's poor* (Moyo 2009, 5).

While this is an incredibly powerful accounting, communicating the full reality of this inequality is impossible. Easterly (2006) and Sachs (2005) use personal stories to attempt to paint a picture. Moyo presents further lists of statistics. But the impact on the life of the impoverished cannot be captured. Poverty's dimensions extend

from people's purchasing power to their health and access to education, to the physical and social environment they live in. Easterly writes:

> *Eight hundred and forty million people in the world don't have enough to eat. Ten million children die every year from easily preventable diseases. AIDS is killing three million people a year and is still spreading. One billion people in the world lack access to clean water; two billion lack access to sanitation. One billion adults are illiterate. About a quarter of the children in the poor countries do not finish primary school (Easterly 2006, 8)*

But even this enumeration of some of the human impacts of poverty does not capture their full extent. Worse still, each of these individual tragedies reinforces their poverty. A girl who cannot attend high school may never be able to earn enough to send her children to high school. Men who frequently cannot work because of the diseases of poverty often cannot afford the medicines and adequate nutrition to treat their illnesses. Poverty is caused by an inability to provide productive labor for these reasons; it is caused by an environment that does not provide fertile soil, clean water, or other necessities for health and work; it is caused by the lack of access to start-up capital needed to open a business, buy fertilizer, or buy a house; and it is caused by a hundred other similar everyday realities.

Meanwhile, a small portion of the world's population enjoys enormous wealth. "Today, a quarter of the world's GDP can fit into an area the size of Cameroon, and a half into one the size of Algeria" (World Bank 2008, 10). US consumers alone wield over $10 trillion in disposable income annually (BEA 2010), while the entire continent of Africa's GDP remains below $3 trillion (UNDP 2007).

Yet as beneficiaries of this disparity, why should Americans care? Some authors have tied African poverty to U.S. national interests (Lyman and Dorff 2007), but most, like Sachs, simply base the relevance of the issue on "a reverence and respect for human life" (Sachs 2005, 2). There is a fundamental injustice to the current extent of global inequality.

As Sachs himself notes, however, Westerners have been predicting the end of poverty since the time of Keynes. Still, poverty remains. Meanwhile, in our increasingly globalized world, Americans have an enormous impact on the lives of Africans. Given the many causes of poverty and this incredible interconnectedness, it can safely be said that, through a number of a multitude of mechanisms, Americans have a large impact on African poverty, for better or worse. Thus, if Americans are impacting poverty but poverty is not disappearing in the near term, then it is time that Americans change their impact.

The Role of Americans in Impacting Global Poverty

As economist Pietra Rivoli illustrates in *The Travels of a T-Shirt in the Global Economy*, the world has become so interconnected that even the purchase of an article of clothing has ramifications for people all over the world, including African cotton farmers and factory workers. Given the complexity of such a seemingly simple action, attempting to calculate or change one's impact appears impossible. It is important to note, however, that many of these impacts occur through

intermediaries. While there are limited ways through which Americans directly impact the lives of Africans, the vast majority are mediated by organizations. Examining organizational impact is therefore a good starting point for understanding individual impact.

Focusing on organizations has its limitations, however. Neither organizations nor organizational types are monoliths. Within every corporation lies a complex hierarchy of individual actors and a range of institutions that govern their actions; variations in the activities, mission, staff, and institutions of different NGOs results in different behavior and different impacts. By focusing on organizational type as the independent variable, other possible factors, like ideology, area of focus, and location are neglected. Organizations with a rights-based development perspective may differ in their impact from those with an egalitarian perspective. The extent of an organization's local presence in Africa may also affect impact, as may the specific populations it reaches.

These limitations noted, however, organizational type is the optimal starting point for this project. There is an extensive literature on the role of NGOs in development and on some of the factors affecting their impact, and there is an even larger body of research that discusses the mediating factors of foreign aid; but such a literature about corporations does not exist. Thus a focus on organizational type allows this project to begin filling this research gap. Additionally, given the wide range of international actors, it is my belief that organizational form is a more

significant determinant of organizational behavior than any of the other factors mentioned.

Therefore, seeking the greatest variation between my cases, I have selected NGOs, MNCs and GOs. This is based on what Warriner (1984) calls a traditional typology—in other words, categorizing organizations by their obvious characteristics. The first common distinction is between public and private organizations. Both governmental and non-governmental organizations have important impacts on African poverty, and I therefore include types of each. Another customary division is between for-profit and not-for-profit organizations, both of which have impacts, and both of which I include. As for-profit governmental organizations are not significant actors in the U.S., this leaves three types of actors: not-for-profit non-governmental organizations (NGOs), for-profit non-governmental organizations (MNCs), and not-for-profit governmental organizations (GOs). I have changed the terminology to fit conventional terms.[1] In choosing GO case study organizations USAID is examined twice because the vast majority of government agencies (e.g. the National Park Service) have negligible impact on African poverty, and because USAID is specifically designated to promote development abroad.

There are other types of organizations that impact African poverty. Intergovernmental organizations (IGOs) like UN agencies, the World Bank,

[1] There are other types of for-profit firms, but MNCs are by far the dominant organizational form with an international scope

International Monetary Fund and the World Trade Organization all have enormous impacts on poverty; but since they are international organizations U.S. citizens are less likely and possibly less able to interact with them. Other useful cases include faith-based organizations (FBOs) and non-development-oriented government agencies (such as the International Trade Administration), but constraints on the scope of the current project relegate these organizations to future research.

Also due to the scope of this project, all of the case studies examined will be from Kenya. Sub-Saharan Africa is a very diverse region, and the ability of these organizations to impact poverty undoubtedly varies considerably from one country to another. Kenya also may be an optimistic choice as it has enjoyed more rapid growth and greater focus from foreign organizations than many African states. It is not an extreme case, however, and as I have personal familiarity with the country, it is a sensible choice. The role of foreign organizations there has also been the focus of substantial research, in relative terms, which is very important for this underexplored subject.

Possible Mechanisms for Impact Global Poverty Available to Americans

One of the primary contributions of the current project is that it creates a framework for analyzing the ability of different organizations to serve as tools for reducing poverty. By synthesizing existing models of organizational structure and behavior and adding some new material, I seek to construct a model that can be

used to evaluate other organizations or even other goals (e.g., reducing environmental impact), and that can be altered to fit other projects. There is currently a notable lack of this sort of framework that using standard measures allows for comparative evaluation of the impacts of different types of organizations. The model developed here is intended to fill part of that void and serve as a starting point for future comparative research. Additionally, its application to the case studies presented here will hopefully give some theoretically- and empirically-based guidance to American citizens looking to have an impact. To begin, however, I tell three hypothetical stories to illustrate the choices presented by the three organizational types.

American citizen A wants to help combat African poverty, so she writes a check for $100 to CARE International, a prominent NGO with a wide range of development projects. CARE uses ten percent of the donation to cover overhead costs and passes the rest on to programming (CARE 2008). The money is spread across CARE's 878 projects around the world, allocating just over 10 cents for each project (CARE 2009). One of these projects provides vitamin A supplements to children in Mozambique at an average cost of about 21 cents per child (Aguayo 2007, 2), reducing night blindness, anemia and the risk of life-threatening illnesses (WHO 2009). These health benefits improve the children's ability to work when they are older, and thereby reduce poverty. Another project uses the ten cents to pay for the printing of a handout at a training session on community leadership for women in Rwanda. Thanks in part to skills learned at the workshop, women are able to form

a rotating savings and credit association and provide themselves with financial services that help them escape poverty. A third project spends the money to pay a fraction of the salary of a consultant designing sustainable irrigation systems in Lesotho[2]. The new irrigation system that results increases crop yields and incomes rise. Thus the hundred dollar donation plays a very small role in supporting a host of activities around the world that help to reduce poverty.

Citizen B, hoping to have a larger impact, writes a petition to his one of his U.S. senators demanding an increase in funding for foreign aid. His letter helps convince the senator that this stance is electorally beneficial and she supports a bill that increases USAID's budget for the year by $210 million (H.R. 1105 Page 123 Stat 1892). The legislation passes, and USAID is able to spend more on new and current poverty relief projects, including the irrigation project mentioned earlier. Additionally, the new funding supports fiscal reform in Angola, providing training on financial accounting to the employees of the Finance Ministry. Better data will promote better reform and through more efficient government spending, increase growth, thereby reducing poverty. Citizen B's letter has played a very small part in achieving this and other changes that stem from USAID's increased funding.

Citizen C takes a more unconventional path and submits a shareholder resolution asking Monsanto, a multinational agricultural biotechnology corporation, to disclose its political contributions. The resolution gains widespread support from

[2] While these are all real projects, costs are only estimates

shareholders, and Monsanto, which lobbies heavily for decreased regulation of its products, is forced to accept the resolution. Consequently, Monsanto's ability to influence political decision-making decreases (Robin 2008). The company, which is notorious for producing poisonous and polluting products, is forced to comply with stricter product safety standards. As a result, Africans are exposed to fewer of the harmful side effects of some of Monsanto's products and do not degrade their soil and water through their use. As Monsanto provides the vast majority of the world's genetically engineered seeds, and herbicides and other chemicals to millions, this impact would be significant. Citizen C, as a shareholder advocate, can take some credit for this change (Robin 2008, 3:51).

Which of the three has the greatest impact? Citizen A, B or C? The remainder of this paper seeks to answer this question, as well as to determine whether this finding can serve as the basis for effectively advising the American public more generally. From the evidence of the empirical case studies that follow, it appears that while NGOs have the most positive impacts, GOs and corporations present the greatest opportunity for a change of impact. Both because of the enormous resources of these organizations and the potential to improve their impacts through reform, Citizens B and C are able to initiate a greater change of impact than Citizen A.

The paper is organized as follows: Chapter two develops the theoretical framework for evaluating organizational impacts and presents some theoretical

hypotheses, as well as some generalized empirical findings from the literature. The chapter defines six significant determinants of organizational behavior and evaluates them for each type of organization. It describes the linkages between these attributes and different types of impact and then uses the results to assess the theoretical impacts of each organizational type on four different types of determinants of poverty.

In Chapters three, I explore the challenge posed by deforestation in Kenya and the efforts of USAID, the Rainforest Alliance, and Mobil Oil to combat it. These cases illustrate, respectively, the inefficacy that can plague government projects, an innovative approach to encouraging sustainable agriculture, and the potential for even the most reviled corporations to do good in the world.

Chapter four presents another case study, this time focusing on Financial and Business Development Services. The chapter highlights the ability of USAID to facilitate more efficient and equitable markets, and the empowerment that Kenyans can gain by accessing credit from Citibank and Opportunity International's WEDCO program.

Chapter five presents a final case study of HIV/AIDS, examining the work of PEPFAR, Family Health International, and General Motors. Both PEPFAR and FHI demonstrate the enormous change in the population's health that can be achieved with adequate funding, while General Motors shows both the potential, and the limitations of work-place social responsibility programs.

Chapter six synthesizes the conclusions of the other chapters, exploring the implications for Americans and Africans and discusses potential directions for future research.

Bibliography

CARE USA Annual Report. 2009. CARE USA.

Collier, Paul. 2008. *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. Oxford University Press, USA.

Easterly, William Russell. 2006. *The white man's burden*. Penguin Group.

Fortune 500 2008. 2008. *Fortune Magazine*. Available at: http://money.cnn.com/magazines/fortune/fortune500/2008/full_list/ [Accessed April 2, 2010].

Global prevalance of vitamin A deficiency in populations at risk 1995-2005. 2009. Geneva, Switzerland: WHO. Available at: http://www.who.int/nutrition/publications/micronutrients/vitamin_a_deficieny/9789241598019/en/index.html [Accessed April 7, 2010].

Hancock, Graham. 1992. *Lords of poverty*. Atlantic Monthly Press.

Klitgaard, Robert. 1991. *Tropical Gangsters*. Basic Books.

Klugman, Jeni. 2009. *Human Development Report 2009*. New York, NY: UNDP. Available at: http://hdr.undp.org/en/reports/global/hdr2009/ [Accessed November 18, 2008].

Lyman, Princeton Nathan, and Patricia Dorff. 2007. *Beyond humanitarianism*. Council on Foreign Relations.

Moyo, Dambisa, and Niall Ferguson. 2009. *Dead Aid*. Macmillan.

Rivoli, Pietra. *The Travel of a T-Shirt in The Global Economy*. TransMedia.

Robin, Marie-Monique. 2008. *Le monde selon Monsanto*. Image et Compagnie. Available at: http://www.imdb.com/title/tt1189345/ [Accessed April 7, 2010].

Sachs, Jeffrey. 2006. *The end of poverty*. Penguin.

Table 2.1. Personal Income and Its Disposition. *U.S. Department of Commerce. Bureau of Economic Analysis*. Available at: http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=58&Freq=Qtr&FirstYear=2007&LastYear=2009 [Accessed April 2, 2010].

UNDP Data. 2007. *The World Bank Key Development Data & Statistics*. Available at: http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~pagePK:64133150~piPK:64133175~theSitePK:239419~isCURL:Y,00.html [Accessed April 2, 2010].

United Nations Statistics Division - Common Database. 2008. *UNSTATS*. Available at: http://unstats.un.org/unsd/cdb_discontinued/cdb_discontinued.asp [Accessed October 23, 2008].

Warriner, Charles K. 1984. *Organizations and their environments*. Jai Press.

CHAPTER II - THEORETICAL FRAMEWORK

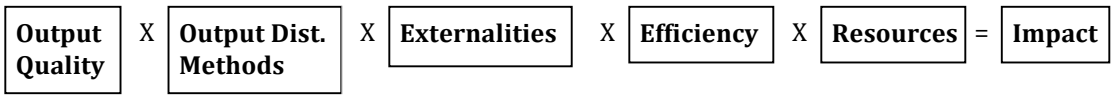
"One drawback of the existing literature is that there are no attempts at cross-institutional perspectives to explain the relative advantages and disadvantages of each type of agency within a single explanatory model" (Martens 286)

To think that a single model can explain the economic impact of an NGO that conducts child nutrition programs in Rwanda and a multinational corporation that produces batteries in Kenya may seem like folly. The incredible complexity and breadth of the very idea of development require volumes to discuss adequately. The model that I propose in this chapter, which does in fact attempt to compare such disparate actors, cannot hope to fully address all of the processes, linkages, and actors involved in poverty alleviation. Many parts will be contentious and some parts will need revision. What I hope will be most useful is the manner in which I set up this model.

I assert that an organization's impact on the determinants of poverty can be described by evaluating several core behavioral organizational attributes, and weighting these attributes by the importance of each to the poverty determinants of interest, the resources of the organization, and the extent to which the

organizational type's activities relate to the determinants of interests (see figure 2.1). By "weighting" I mean that each of the factors is essential and that the change in impact associated with a change in one of these attributes is dependent on the value of the other attributes. Thus, for example, an increase in efficiency will lead to a much larger change in impact if the output quality, output distribution methods, and externalities are all optimized than if they are lacking. If an organization had no resources to implement a project, the project would not take place. Unfortunately, the other factors are difficult to quantify, but in understanding how they interrelate it is useful to imagine them as numerically measurable, as this expresses the purest manifestation of the model. Consequently, I have used a multiplication sign in the model to denote this relationship between the five attributes. It does not imply an exact multiplicative relationship, but an interrelationship that is somewhat analogous to multiplication.

Figure 2.1 – Organizational Impact as a Function of Organizational Attributes



As this project focuses not only on the impacts of different organizational types, but also on the potential for change in these impacts, an analysis of the organizational constraints to change gives some insight into this potential. By magnifying the

potential for change by the current impact, the total potential change can be described[3] (figure 2.2).

Figure 2.2 – Potential for Change in Impact as a Function of Organizational Constraints

This chapter is laid out in six parts. The first section defines more clearly the mediating variables and makes an argument for why the combination of these variables is sufficient to describe organizational impact. The second, third and fourth sections evaluate the organizational attributes of NGOs, GOs and MNCs, respectively. And the sixth section synthesizes the previous sections to assess the impacts and potentials for change of each type of organization.

Components of the Model

Determinants of Poverty

Organizations impact poverty in a multitude of ways. Occasionally, this impact is as straightforward as a cash transfer, but in general it is by directly or indirectly affecting other factors that contribute to poverty. As noted earlier, the

[3] This accounts for organizations that have the ability to change and expand, but are too small for this change to be felt.

literature on development is vast, and the consensus is small, so constructing an exhaustive list of the determinants of poverty is neither feasible nor useful. For the purposes of this paper, what are important are types of determinants that are impacted by organizations in different ways. Dividing determinants into categories by whether they are primarily impacted by service delivery, societal coordination, or economic policy and activity, for example, helps to relate these types to the organizations that affect them.

In addition, these categories should be meaningful and inclusive of most major determinants. Rather than reinvent the wheel, I draw from economic theory and focus on the types of capital that contribute to the ability of Africans to produce goods and services and thereby earn income. In a review of the literature, Piachaud (2002) identifies five poverty-determining forms of capital: financial, physical, human, public infrastructure, and social. He also acknowledges gaps in this framework that are covered by a Sen's (1999) writing on how these forms of capital fit together. In grouping the case studies, I focus on human capital and natural capital, which is a subcategory of physical capital. I also look at a category I will call *market conditions*, which is an adaptation of Sen's "exchange conditions" and "production possibilities." The other types of capital are also important and should

be studied as well to fully understand the impacts of U.S. organizations,[4] but they are outside the scope of this project.

The assumption here is that poverty is primarily determined by the ability of the population to earn money, and that this ability is dependent on the presence of natural capital, human capital and market conditions, as well as the other types of capital. These categories are also convenient as they are impacted in unique ways: investment in people (often through service provision) for human capital; preservation of natural resources (often through societal coordination of their use) for natural capital; policymaking and economic activity (often through decisions about state economic policies, organization policy, and organizational location of operations) for market conditions. Some determinants may not fit well into any of these categories and some may fit into more than one, but for the purposes of this project, these distinctions are useful.

According to Ostrom (2001), human capital is, "The acquired knowledge and skills that an individual brings to an activity" (175). I broaden this to include other aspects of an individual that mediate hir ability to use these skills, notably hir health. While not traditionally part of human capital as defined by Smith, or more recently by Jacob Mincer (1958), health, like education, is a personal attribute that modifies

---

[4] It also should be noted that man-made physical capital, financial capital and some of the other types of capital do not have the same immediate impact on the lives of individuals. They are also important factors of production (Woolcock 2001), but more from the standpoint of a firm than from that of a wage earner (particularly as the poor target Kenyans are selected to not have either of these types of capital).

the value of an individual's labor, and thus is both similarly impacted by organizations and has a similar effect on poverty (namely, affecting the ability to obtain employment, and the level of compensation).

More concrete is natural capital, which "comprises the resources we use, both nonrenewable (oil, coal, metal ore) and renewable (forests, fisheries, grasslands)" (Hawken et. al 2004, 163). These inputs are essential for nearly all economic activity and are generally considered an asset to their owner (individual or national). Concerns about countries with abundant natural resources that fail to develop economically due to "Dutch disease" (Corden and Neary 1982) or the "resource curse" (Sachs and Warner 2001) have undermined this assumption. For the most part, Kenya is not endowed with significant natural resources, and I will not address the effects of the resource curse on poverty in Kenya, although it is important to keep in mind.

These two types of capital, while important, fail to capture the ability of workers to earn income, and the value of this income in terms of the cost of living. I therefore include market conditions as well. Market conditions are analogous on the individual level to the macroeconomic environment on the firm level as a category describing how the market and regulatory environment allows or prevents individuals from earning income. Drawing from the World Economic Forum's *Global Competitiveness Report,* some important macroeconomic variables from the standpoint of the individual are the availability of employment, wage rates, labor

practices, access to credit, and the cost of living (WEF 2009). These features are defined as a group because they are all directly caused by economic activity (as opposed to human, social and natural capital, which are all only indirectly affected by economic activity), and they all directly affect the purchasing power-adjusted income of individuals.

Drawing from the World Bank's Poverty Manual, the Millennium Development Goals, and from scholars like Jeffrey Sachs and Paul Collier, I have grouped some of the most frequently cited determinants by the categories I have just defined.

Fig. 2.3 – Selected Determinants of Poverty	
General Categories	*Specific Examples*
Natural Capital	Soil fertility Forestation Fish stocks Resource management mechanisms
Human Capital	Education Health status Family size
Income Availability	Availability of employment Employment compensation Access to credit Cost of living

In an effort to stay within the scope of this project, as well as to avoid redundancy or controversy in the selection of a list of determinants, I will focus on one determinant of poverty from each category as a case study, under the assumption that there can be some generalization to the rest of the category. This is

a large assumption, and significant differences between determinants of poverty within a single category will be lost. Lack of education reduces income, whereas lack of healthcare can eliminate it, but both are dependent on services that are often provided by American organizations. Since market conditions and both kinds of capital are affected by foreign organizations in unique ways, generalizing across the types of determinants allows for broader description. In this way, readers can make judgments about impacting not only the determinants specifically discussed, but any others that fit within the three categories. Therefore, case studies of deforestation, financial and business services, and HIV/AIDS will be used to extrapolate to how American organizations can impact a wide array of determinants of poverty. Each of these determinants has been the subject of considerable research and fits its category well.

Organizational Attributes

Having defined the determinants that U.S. organizations can impact, the next question is how they do so. A natural starting place for attempting to categorize the important behavioral differences is organization theory. This perspective assumes that behavior differences result from differences in organizational structure, so the specific task of this section is to define these differences. Unfortunately, little attention has been given to the government or non-profit sectors (the two combined are mentioned only three times in a standard organizational theory

textbook), and there is little consensus in the field about how to go about comparing the three sectors.

Weisbrod (1998) made an important contribution by identifying five areas in which the three types of organization differ: efficiency, taking advantage of consumer informational deficiencies, output quality, output distribution methods, and generation of external benefits and costs. While this accurately portrays the endogenously-based differences in behavior, it ignores the different effects of the external environment on each type of organization. As Weisbrod argues, organizational form can be defined by its goals and constraints. The differences in goals between the three types of organizations account for the discrepancies in the endogenous factors, and the constraints are the exogenous factors. Finally, while many of these constraints affect all organizations equally, most are tempered by the resources of the organization. As a result, the primary factors that I will focus on as determining the differences in behavior of the three types of organization are: output quality, output distribution methods, generation of externalities, and efficiency; legal and non-legal constraints; and resources. I will not examine the extent to which organizations take advantage of consumer informational deficiencies as a separate variable, as it is in many ways covered by output quality and output distribution methods.

Output Quality, Output Distribution Methods, Externalities and Efficiency

In thinking about how these factors determine impact, it can be useful to imagine two ideal types: one with a maximally positive impact, and one with a maximally negative impact. Three of the endogenous characteristics Weisbrod posits together define these two ideal types, while the others determine the magnitude of the current and potential impacts. Organizations with high output quality, more need-based distribution methods, and generation of more positive externalities define the first ideal type[5,6]. They have a more positive impact on the recipients of their goods and services as well as on the local population and they epitomize the positive ideal type. Organizations with low output quality, more commercial distribution methods, and generation of more negative externalities epitomize the negative ideal type and have a more negative impact on the recipients of their goods and services and on the local population.

While it cannot be claimed that these three factors entirely determine the favorability of the impact, they do capture a great deal of the deviation. Focusing on the outputs of an organization, the three factors mediate the value of each output and its byproducts. Output quality defines the relative value of a standard good or service to the African consumer in comparison to comparable goods or services

---

[5] No organization fits either of these ideal types perfectly, but they prove useful in discussing how positive or negative an organization's impact is.
[6] Output quality and efficiency will be evaluated throughout on a scale of low to high and externalities will range from negative to neutral (in aggregate) to positive. Output distribution methods will range from not need-based to need-based, with an additional category, "commercial", for when the allocation is based on the purchasing power of the customer, client, shareholder, etc.

produced by other organizations. By measuring output quality, impact assessment can capture not just the number of goods or services provided, but also their net worth to the recipients. The further inclusion of distribution methods acknowledges the different values a single good or service may have for different recipients. Goods and services can be distributed in a variety of ways, ranging from the highest bidder (the most commercial) to the greatest need (the least commercial). Therefore the relative commercialism of the distribution method indicates the relative value that the recipients will place on goods and services received relative to other possible recipients. Finally, the inclusion of externalities acknowledges the many ways in which organizations impact the local population outside of the activities we will focus on. It is impossible to account for all externalities, but by assuming that some types of organizations tend to have more positive or more negative externalities in the aggregate, some of these impacts can be captured.

Additionally, efficiency determines the success of an organization's activities[7], but usually not the positivity or negativity. The positivity of an impact is relatively meaningless if even a massive investment translates into a small impact. On the other hand, the organizations with the greatest impacts (positive and negative, respectively) are the positive and negative ideal types with high efficiency. Efficiency thus acts as a mediating factor for the extent of positive impact affected by an organization.

---

[7] This is based on the assumption that the activities are achievable and success is therefore reduced to the return on investment.

Constraints and Resources

Given the impact determined by these first four factors—output quality, output distribution methods, externalities, and efficiency—there are two ways for it to be improved. If the impact is positive, it can be promoted and expanded to increase its net effect. If the impact is negative it can be reduced and reformed to decrease its negative impact and make it more positive. Thus in general, the focus with positive ideal types will be on promotion and with negative ideal types it will be on reform. These changes, however, are not always easy, or even possible. Organizations experience significant barriers to change from the outside environment[8].

Legal, political and market constraints are some of the limiting factors of this operating environment. The most important legal constraints for these purposes are those that treat the different types of organizations differently. Significantly, government organizations are also often the regulatory agencies for their sub-sectors and therefore have more limited legal constraints. However, their actions are constrained by their constitutional mandates, as well as by international law. Political constraints, similarly, have a greater impact on government agencies at the international level. However, since political constraints here are broadly interpreted as including any policy considerations that are dictated by the need to respect the

[8] Resources and constraints will be evaluated on a simple scale ranging from small to large.

interests of other actors, government organizations are also politically constrained at the domestic level. Finally, market constraints primarily include the demands of suppliers and consumers, broadly defined to include non-profit funders, private investors, and taxpayers. Organizations facing greater legal, political, and market constraints will be less able to effect a desired change in impact. They will also be less able to effect large-scale changes in a given determinant of poverty.

These organizations also have varying capacities to overcome these obstacles or to change their impact in other ways. Organizational resources can take many forms, but they largely serve as proxies for size and influence. An organization's internal resources include financial assets, staff and staff expertise, material goods, and other factors affecting its ability to carry out tasks. External resources include networks of partner organizations, grassroots supporters, and participation in umbrella groups or associations. Organizations with more extensive resources will be able to effect a desired change in impact with greater ease than those with less extensive resources, but will be harder to influence than organizations with less extensive resources. Sectors with extensive resources will also be more likely to be able to effect large-scale changes in a given determinant of poverty.

The remainder of this section will establish the endogenous organizational characteristics discussed earlier as well as the constraints and resources to change so as to theoretically determine the strengths and weaknesses of the different types or organization. Then, it will briefly outline the connections of the three types of

organizations with the four types of determinants of poverty. And finally, it will hypothesize which method of effecting change is theoretically advantaged by the characteristics of the organization it utilizes and the determinants of poverty it impacts.

Organizational Type: Nongovernmental Organizations

The World Bank defines NGOs vaguely as private organizations "characterized primarily by humanitarian or cooperative, rather than commercial, objectives . . . that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development" in developing countries (World Bank Operational Directive 14.70). In this analysis, the distinctions of humanitarian or cooperative objectives, as well whether an organization is U.S.-based, will be determined by 501(c)(3) designation by the IRS. The NGO sector thus defined is a small part of the U.S. economy but it plays an important role in international development. With total revenue of under $9 billion in 2003, the entire sector is dwarfed by single multinational corporations, yet Adeleman (2003) estimates NGO contributions as three and half times official government aid (Reid and Kerlin 2006).

The resources available to NGOs are spread widely across a range of activities. Reid and Kerlin (2006) define these activities as including "providing multiple or specific forms of financial, physical, or educational assistance to

individuals, institutions, or communities abroad in the areas of disaster and poverty relief, agriculture, economy, health, education, democracy and civil society, human rights, and immigration (Reid and Kerlin 2006, 8)". "They provide direct services to individuals, as well as technical assistance, training, and material resources to support institutional capacity-building and domestic improvements" (Reid and Kerlin 2006, 21). NGOs both play a significant role and occupy a unique niche in African development in these capacities.

To further clarify this role and what is unique about NGOs, a case study is useful. Due to its size and the consequent availability of data, CARE USA has been selected. CARE is one of the largest American NGOs with an operating budget of over $700 million and projects in 66 countries (CARE 2008). The organization's focus is on both development and relief, with programs ranging from women's empowerment to natural resource management to HIV/AIDS prevention and treatment. CARE conducts projects of its own, but more than half of its revenue comes from US agencies and multilateral organizations, largely for projects that CARE is contracted to do. However, CARE's outputs are different from those of other contractors, and some of this difference is a result of organizational differences between non-profit and for-profit organizations.

The primary attribute that sets NGOs apart from commercial firms is the lack of a profit motive. While 501(c)(3) organizations can accumulate surpluses and employee pay is dependent of the organization's revenue, many organizational

theorists, notably Henry Hansmann (1980), have argued that a "nondistribution constraint" exists which dictates different behavior on the part of non-profit organizations from that of for-profit firms. The theory is that as executive compensation is capped in 501(c)(3)'s, the incentives to pursue profitable courses of action are diminished and therefore non-profits will pursue other objectives which are more in line with the public interest, a behavior Burton Weisbrod (1988) calls "bonoficing". CARE, for example, defines its bottom line as "impact: long-term, sustainable social change" (CARE AR 2008). According to Weisbrod (1998), bonoficing accounts for the difference among organizational forms in the five factors mentioned earlier: output quality, output distribution methods, generation of externalities, and efficiency.

NGO Organizational Attributes

Given the greater information-gathering resources of organizations over individuals, organizations tend to be better able to assess the quality of a given good or service. Weisbrod argues that the nondistribution constraint discourages non-profit executives from taking advantage of this informational disparity in order to provide a lower quality good at the same price as its higher-quality equivalents. As a result, non-profits provide higher quality outputs when the quality of the outputs is difficult to determine.

Empirical findings as to differences in quality between organizational types due to informational disparities are scarce, but there have been a number of studies of nursing homes in the U.S. which support the hypothesis (Weisbrod and Schlesinger 1986; Gertler 1989; Zinn 1993; Davis 1993; and Zinn 1994). Studies of non-profit and for-profit hospitals have yielded more mixed results, but given the controversy surrounding the research methods of many of those studies and the strength of the nursing home findings, the theoretical hypothesis stands. Additionally, Chou (2002) showed that the difference in quality increases when the informational disparity is larger. As a result, NGOs can be expected to take less advantage of informational disparities when they are present and therefore deliver a higher quality output than for-profit firms.

When CARE implements an early childhood development program in Rwanda that provides services so that children are "cognitively stimulated, enjoy nutritious meals, get plenty of hugs and emotional support and even receive health services," the likelihood that the organization will focus on providing the requisite number of interactions with the children, the target number of calories, and certain number of hours in a classroom (as may be stipulated by the project's funders) with little regard to quality or impact is smaller than for a firm. Although there is a large informational disparity between CARE and the consumer (whether conceptualized as the recipients of the services or as the funders), and therefore an opportunity to increase profits by decreasing quality, the nondistribution constraint incentivizes CARE management to emphasize quality over profit.

Another literature, however, emphasizes how the factors identified by Svensson and cited above—multiple objectives, difficulties in measuring output and performance, and weak performance incentives—limit output quality (Reinnika 2008). Weak performance incentives and difficulties in measuring output both impede quality improvement, and "the problem with multiple objectives is that they typically imply trade-offs, particularly in the short run" (Svensson 2008, 318). This trade-off, Svensson argues, typically comes at the expense of "less easily monitorable tasks (for example, effort exerted in actual implementation of a project)" (318). Given the empirical evidence of high output quality, however, these factors likely are largely impediments to efficiency, not output quality.

In addition to its quality, the value of a good or service is mediated by the needs of its recipient. For example, the meals provided in the program in Rwanda are more valuable to children whose parents are unable to provide regular meals at home, or who are under-nourished. Organizations that target poor, sick, undereducated, or otherwise disadvantaged populations have what I term more *democratic* output distribution methods and are likely to provide greater total value to their recipients and therefore have a larger positive impact. The non-distribution constraint among NGOs encourages more need-based methods, because the ability of recipients to pay for goods and services does not affect executive compensation. A study of NGOs in Europe found that NGOs do in fact allocate services primarily based on the needs of the recipients (Nancy and Yontcheva 2006). However, Paul Collier (2007) and others have made the critique that aid agencies of all types

frequently fail to reach the most underprivileged populations. Recognizing this problem, some agencies are focusing on their reach (CARE's mission statement is to "serve individuals and families in the *poorest* communities in the world…" [emphasis added] (CARE.org 2/10/2009)), but this remains an issue, and NGO output distribution methods are therefore fairly need-based.

Assessing output quality and distribution methods only captures the intentional impacts of an organization, so given the wide variety of ways that a foreign organization affects a local community, it is important to broadly assess the positive and negative externalities as well. "Insofar as nonprofits are bonoficers," writes Weisbrod, "they tend to engage in more activities that provide more external (uncaptured) social benefits and in fewer activities that impose external costs" (Weisbrod 1998 75). A project like CARE's in Rwanda can have unintended benefits such as increasing social cohesion or freeing the children's mothers to work more and earn more money; and it can have unintentional negative consequences, such as estranging children from their mothers or drawing skilled medical personnel into the aid agency's project and thereby undermining the staffing of government clinics. The externalities from any given project are so numerous and often unquantifiable that any sort of measurement of the total externalities is very difficult; but again the nondistribution requirement gives a theoretical indication of relative net externalities. Since NGOs do not work off a bottom line like firms do, they are more likely to take into account unintended impacts and to include factors other than revenue and cost in their measure and evaluation. CARE's *International Evaluation*

Policy states that evaluations should "examine both benefits and harms, including the intended and unintended, positive and negative impacts on specific groups, such as women, ethnic minorities, etc" (CARE 2009). This awareness does not mean that aid agencies can predict and eliminate all negative externalities, but they are likely to have comparatively positive net externalities.

The final aspect of organizational behavior that is impacted by the nondistribution constraint is efficiency. Whereas the other three factors affected, the net value to the recipient of a given good or service, efficiency affects the number of outputs per input. Given CARE's $700 million operating budget and knowing the value of each service, the only missing piece is how many goods and services CARE can produce with that budget. Also unlike the other factors, efficiency is negatively impacted by the nondistribution constraint. The belief that the profit motive maximizes efficiency is at the core of the argument behind privatization and economic liberalism generally. Studies have had mixed results, however, in confirming this hypothesis. A strong emphasis on improving efficiency in recent years has brought overhead down in NGOs, with CARE reporting 90% of 2008 operating expenses going towards programming, putting it exactly in line with the rest of the sector (Reid and Kerlin 2006). NGOs are therefore at least fairly efficient, and improving.

NGO Constraints and Resources

Output quality, output distribution methods, generation of externalities, and efficiency all describe the effects of organizational goals on behavior. To account for the fact that organizations cannot always achieve their goals, it is important to examine the external constraints on their behavior. The most clear-cut constraints are legal. First and foremost is the cap on executive compensation, which creates the non-distribution constraint. Although this limitation has benefits from the standpoint of NGO beneficiaries, it constrains NGO behavior in attracting top talent as well as financially incentivizing management. Second is a ban on lobbying and election advocacy for 501(c)(3) organizations. Although there are some questions about the effectiveness of this regulation, this is a significant restriction of the scope of NGO activities (Brody and Cordes 1999). Finally, 501(c)(3) registered organizations cannot become limited liability companies, and therefore cannot protect their leaders from liability for the organization's debts like for-profit organizations (McCray and Thomas 2000). NGOs also enjoy a number of legal perquisites, including legal personhood, and a range of tax exemptions on charitable giving that allow NGOs to collect more donations and buy goods, services and property cheaper than their for-profit competitors. By one estimate, this exemption accounts for 21% of U.S. international NGO revenue (Ibid.).

Non-legal constraints occupy a broad, amorphous category, which I will try to describe by briefly reviewing NGO relationships with other major actors. Beyond legal constraints, there are numerous political constraints that arise from interaction

with the government. As contractors for USAID and other government agencies, where NGOs receive 20% of their funding (USAID 2004), NGOs are limited in their ability to criticize or in other ways antagonize the government. This poses particular challenges to organizations like CARE which receives more than half of its revenue from government sources (CARE 2008), but whose stated mission includes "[i]nfluencing policy decisions at all levels" (CARE 2009a), as continued funding depends on a good relationship with government agencies. Similar constraints exist in relations with partners (firms, NGOs and host governments) and other funders. Extending to individual donors and recipients, the list of constraints grows further. "Aid agencies, facing disbursement pressures, need to show quick results to taxpayers—and NGOs to their contributors" (Reinikka 2008, 194). A major criticism of NGOs (as well as USAID) in recent years has been the appearance of being "donor-driven" instead of "participant-driven" (Reid and Kerlin 2006) (a fact that CARE acknowledges in its evaluation policy and makes a point of discouraging (CARE 2009)). NGOs therefore have many actors to whom they are in some way accountable and whom they must please, placing considerable constraints on their independence.

Additionally, however, NGOs' image as altruistic organizations privileges them in a number of ways as well. As Weisbrod (1998) argues, consumers may show a preference for NGOs over for-profit providers, just as donors are far more likely to donate to NGOs than to firms. Similarly, NGOs have become a preferred provider in the eyes of the U.S. government and may enjoy similar status with host

governments (Hulme 1996). Despite these few advantages, however, non-legal constraints are significant, if mixed.

The final and perhaps most important factor in determining NGO impact is resources. As noted earlier, the aggregate financial resources available to the international development and assistance subsector are comparatively miniscule at $9 billion. Only 11% (449) of NGOs surveyed by Reid and Kerlin (2006) had budgets of over $2 million, and the median net assets were only $56,000. Considering the massive clientele they are attempting to serve, this lack of resources is a dominant characteristic of the sector. NGOs certainly have other, non-financial resources, particularly technical acumen and networks of other organizations and institutions, but overall NGOs severely lack resources.

NGO Types of Impacts

While NGOs have some impact on human capital, natural capital and market conditions, their involvement varies considerably. In some areas NGOs enjoy unique advantages and in others they are less well positioned. A short exploration of particular linkages will help illuminate where the greatest potential impact is.

Traditionally, the primary focus of NGO projects has been on human capital. Health and education-focused organizations make up 37% of all international development and assistance NGOs and wield 50% of the subsector's resources (this excludes organizations with multiple focuses, many of which have health and

education projects) (Reid and Kerlin 2006). The role of service-provider biases NGOs towards human capital development, as there are tangible ways to supplement human capital through service provision (e.g., establishing schools, conducting vaccination campaigns, coupling training with agricultural extension). Additionally, the advantages in output quality, output distribution and externality generation privilege NGOs as service providers, attracting more NGOs to human-capital-building projects and magnifying their impact. A sector-wide focus on "capacity-building" reflects the integration of human capital development in NGO projects. CARE's project in Rwanda also demonstrates this focus, as does the organization's first stated mission of "[s]trengthening capacity for self-help" (CARE 2009a).

Another traditional role for NGOs has been the maintenance of natural capital. Although environment, population and sustainability-focused organizations only make up 8% of organizations, they control 26% of the subsector's assets and have a large international voice (Greenpeace and the World Wildlife Fund are two prominent advocates) (Reid and Kerlin 2006). As less financially-motivated organizations, NGOs may enjoy some advantage as natural resource advocates, but beyond advocacy, they are comparatively poorly positioned to affect natural resources in developing countries. They are not major property owners and given their size and limited focus on the production of goods they have little control over pollution or management of most natural resources. It is certainly significant that World Wildlife Fund, by far the largest international environmental NGO in the U.S.

is primarily dedicated to advocacy and awareness work (WWF 2009), and that CARE's primary climate change project is focused solely on advocacy.

NGOs are even less involved in affecting market conditions. The one area that NGOs participate heavily in is the provision of microfinance, which has been one of the great successes of the sector. There are also NGOs that attempt to lobby for labor rights or fairer trade policy, but these efforts are much less prevalent. One other significant way in which NGOs affect income availability is through agricultural extension projects. Although some of these projects could be termed human capital, other projects aim specifically at altering the market in order to improve income. One such project is CARE's Ghana-based Fair Trade Fruits. This project aims to enhance the market for and institutions supporting the fair trade fruit industry in order to improve household income (CARE 2009). Despite these exceptions, however, NGOs are generally not well-suited to affecting income availability and consequently generally do not attempt to do so.

Organizational Type: Government Organizations

The vast majority U.S. non-military foreign assistance is administered by various agencies under the Department of State. Since its establishment in 1961, the United States Agency for International Development (USAID) has been the dominant actor in the sector. The creation of the President's Emergency Plan for AIDS Relief in 2001 introduced another major actor, although USAID remains the

largest source of funding. Other agencies within the Department of State and outside it also contribute in small ways to U.S. foreign assistance, but I focus exclusively on these two major players.

USAID is the primary development organization of the U.S. government and is charged with promoting U.S. foreign policy by winning hearts and minds. Given this broad scope, USAID has an appropriately broad mission statement:

> *USAID accelerates human progress in developing countries by reducing poverty, advancing democracy, building market economies, promoting security, responding to crises, and improving quality of life. Working with governments, institutions, and civil society, we assist individuals to build their own futures by mobilizing the full range of America's public and private resources through our expert presence overseas.* (USAID AFR 2009, 3)

This work includes activities promoting "economic growth, agriculture and trade, global health democracy, conflict prevention and humanitarian assistance" (USAID 2009). With an $11 billion operating budget, and operations in 100 developing countries, USAID's impacts are felt in every corner of the world (USAID AFR 2009, 18). Specific activities include: technical assistance and capacity building, training and scholarships, food aid and disaster relief, infrastructure construction, small-enterprise loans, budget support, enterprise funds, [and] credit guarantees" (USAID.gov 2009).

PEPFAR, on the other hand, is far more focused. In its first manifestation, PEPFAR targeted only the HIV/AIDS epidemic. When PEPFAR was renewed in 2008, the mandate was expanded in order to:

> *…strengthen and enhance United States leadership and the effectiveness of the United States response to the HIV/AIDS, tuberculosis, and malaria pandemics and other related and preventable infectious diseases as part of the overall United States health and development agenda…* (Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008, 5).

Today the program has programs in over thirty countries and reaches tens of millions of people with treatment, care and support (PEPFAR.org 4/5/10). In the 2008 appropriation, the program was funded at $48 billion over five years, approaching USAID's total funding. While administered independently, PEPFAR coordinates closely with USAID and operates similarly in many ways.

According to Martens (2008), "in foreign aid, the feedback loop between recipients and decision makers is broken; only donors have the political leverage over the decision-making process" (287). Therefore, "the main role of aid agencies is to solve the ownership problem caused by the broken feedback loop in foreign aid" (Martens 2008, 288). This means disbursing wealth transfers to the developing world in a manner that is aligned with the interests of its recipients. This challenge of understanding and catering to the interests of these recipients is important to keep in mind and is a recurring theme in understanding the impact of these GOs.

It is also important to realize that "[o]fficial aid agencies usually do not implement projects through their own staff but delegate implementation to for-profit (companies, experts) or nonprofit (NGO) subcontractors", and the results will differ depending on the subcontractor (Martens 2008, 299). Consequently, any analysis of the impacts of USAID must take into account the organizational attributes

of its implementing partners. The organizational attributes of corporations will be discussed later, and this discussion may shed some light on how corporate subcontractors affect USAID's impacts, but these subcontractors are not a focus of this project in themselves. NGOs, on the other hand, in addition to implementing USAID projects, also raise private funds and carry out their own projects, and they must be considered in both capacities.

In some literatures, NGOs and GOs are collectively termed "aid agencies". While this can be confusing and glosses over their differences, it recognizes similarities in mission and organizational form. All aid agencies seek to disburse resources abroad in a way that solves the broken feedback loop. Additionally, like NGOs, GOs lack a profit motive. Government agencies have limits on executive compensation, and therefore operate under a similar nondistribution constraint. As, a result "the organisational characteristics of NGOs are not fundamentally different from those of official aid agencies", and it can be assumed they share some behaviors by extension (Martens, Murrell and Mummert 2002, 12). Specifically, the nondistribution constraint increases output quality and focuses output distribution methods on need. At the same time, efficiency is reduced by the lack of a profit motive.

Despite these similarities, however, GOs do not behave exactly the same as NGOs. The literature on public agencies identifies a number of other constraints on government agency efficacy. According to Svenssion (2008):

> *"These incentive constraints include multiple objectives, difficulties in measuring output and performance, and weak performance incentives. However, although common in the public sector, these institutional features are often more pronounced in the foreign aid sector. In addition, there are features in the aid business that make foreign aid particularly subject to adverse incentive effects. They include the presence of multiple principals, that is, donors, and a broken information (accountability) feedback loop between the providers and the beneficiaries"* (312)

Additionally, whereas membership in NGOs is voluntary and member preferences tend to be more in line with recipient interests, "a bilateral agency's margin for mediation[9] is constrained by diverging donor and recipient interests" (Martens 299). This divergence significantly impacts output quality and distribution methods. "Politicians and policymakers in donor countries", writes Reinikka (2008), "cannot dismiss the interest groups that support them—groups that may place a high priority on funding like-minded groups in developing countries" (195). The need-based nature of aid agency distribution methods is thus diluted, and similar constraints affect output quality. Among these, Reinikka highlights how "many donors limit the market for aid services and supplies to their own nationals (tied aid)" (Reinikka 195) and Martens (2008) calls attention to political motives of foreign aid. As a result, I revise USAID's output quality and output distribution methods to moderate and fairly need-based, respectively.

[9] Mediation here refers to mitigating the broken feedback loop.

Governmental Organization Constraints and Resources

As agencies of the organization responsible for enforcing the laws discussed earlier, it might seem that USAID and PEPFAR itself would be relatively free of legal constraints. They are subject, however, to a number of types of legal constraints that do not affect private actors. On a most basic level, as part of a democratic government, GOs responsible to the elected representatives of the citizenry of the U.S., and regardless of the will of the agencies' executives, their high-level policies are set by these representatives. Beyond their fundamental accountability to the American people, USAID and PEPFAR are also constrained by their legal mandates. As defined in the 1961 Foreign Assistance Act and the subsequent Executive Order 10973, USAID's scope is limited. While the mandate established by these laws is broad, by defining the agency's functions it prohibits an extension of its role beyond these functions. PEPFAR similarly has a limited scope of work, and is also affected by various government policies requiring or prohibiting specific practices (e.g. the Mexico City Policy banning funding for organizations supporting abortion).

Finally, international law, which focuses comparatively little on non-state actors, has a major impact on government actors (Dickinson 2005). The principle of national sovereignty, as established in the United Nations Charter, in particular serves as a major constraint to work in developing countries. There is somewhat of a paradox in U.S. governmental organizations acting as legal persons in host countries and bound by local laws, but the entire government simultaneously acting

somewhat outside the law, given the impossibility of enforcing international law. Nevertheless, all USAID and PEPFAR projects have to receive at least the tacit support of the host country government in order to avoid being accused of violating national sovereignty. In the aggregate, these three constraints are very significant.

Additionally, USAID and PEPFAR are not only constrained by their legal obligations to taxpayers, host country governments, and other partners, but they also must to some extent cultivate good will among these groups. This challenge is exacerbated in host countries (as to a lesser extent with NGOs) by the semblance of neo-imperialism created by the agencies' government affiliation, as well as its actual purpose of promoting U.S. interests. This latter constraint is especially significant as it limits the scope of GO activities to levels that are perceived as non-threatening.

Both agencies have such a large impact despite these constraints solely because they are the largest single actors devoted primarily to development work. The $11 billion that USAID disperses every year is more than the entire NGO sector combined and its power extends far beyond its budget. As an agency of the Department of State, USAID also wields some of the political resources of the world's lone political and economic superpower. PEPFAR similarly controls enormous financial resources and some of the power of the U.S. government. Additionally, the U.S. government's influence over multilateral organizations including the World Bank, IMF, WTO and UN system further magnifies this power.

As a result, USAID, although only slightly larger budget-wise than the NGO sector, dwarfs NGOs in overall resources.

USAID Types of Impacts

Both because such a large percentage of USAID's funding is channeled through NGOs [70% according to USAID (2004)] and because the best practice literature for all aid agencies is generally similar, USAID engages in many of the same activities as NGOs. The relative emphasis on each area is different, however, as Figure 2.3 shows. Notably, USAID has greater emphases on social capital expenditures (a result of foreign policy goals of promoting democracy) and market conditions (partly a result of goals of promoting U.S. economic interests). One significant difference reflected in this data is that USAID directly engages host country governments in a way that NGOs do not. Both through the extension of conditional aid, as well as through technical assistance projects targeting government and market institutions, USAID approaches governance and economic issues at a national level. USAID's Zambia Democratic Governance Project, for example, not only engaged the media and citizens to promote democratic reform, but also worked directly with the National Parliament and the Cabinet, and attempted to facilitate the rewriting of the country's constitution.

Figure 2.3 – Global Involvement of U.S NGOs and USAID in Four Types of Determinants[10]				
	NGO $	**NGO %**	**USAID $**	**USAID %**
Other	1,193,094,388	18.2	1,753,776,000	20.8
Human Capital	3,246,746,425	49.5	3,058,013,000	36.2
Natural Capital	1,483,349,607	22.6	291,932,000	3.5
Market Conditions[11]	632,659,920	9.7	3,332,573,000	39.5
Total	6,555,850,340[12]	100	8,436,284,000	100

USAID is thus highly involved in influencing market conditions. Some development scholars, however, argue that this sort of involvement undermines African governmental institutions and is therefore counterproductive. In addition, concerns of neo-imperialism discussed earlier further disadvantage USAID, and as a result, I would predict that USAID is poorly suited to this sector.

Organizational Type: Multinational Corporations

Multinational corporations might seem out of place in a discussion of poverty reduction. However, the unprecedented reduction in the last two decades in the global population living in poverty has been driven by economic liberalization and

---

[10] Data from Kerlin (2006) and USAID (AFR 2009). USAID data is from budget breakdown, while NGO data comes from a breakdown of private donations to different categories of NGOs. Original categories were used with small changes (market conditions data for comes from "macroeconomic development" programs in USAID budget; for both sections, healthcare and education efforts were combined to create human capital category).
[11] Includes agriculture projects
[12] This figure is significantly lower than the one quoted earlier due to the omission of revenue earned by organizations whose activities were classified as "general"

private sector growth in South and East Asia (Woolcock 2009, 4). At the heart of this growth have been multinational corporations. Although their primary purpose is not directly related to development, they can be so integral to economic growth that an analysis of U.S. organizations that impact poverty that omitted them would be incomplete. MNCs are somewhat better defined than NGOs. According to a standard definition, an MNC is,

> *A business organization whose activities are located in more than two countries and is the organizational form that defines foreign direct investment. This form consists of a country location where the firm is incorporated and of the establishment of branches or subsidiaries in foreign countries* (Smelser and Baltes 2001, 10197*).*

While there are other types of firms that have both American and international dimensions, it is foreign direct investment (FDI) that serves as the primary link between U.S. commercial activity and poverty in developing country poverty, and therefore MNCs, as the defining organizational form, are the focus of this project. MNCs can be phenomenally massive entities with revenues in the hundreds of billions of dollars (compared with hundreds of millions for NGOs), or they can be small, single-investment ventures. They produce almost every type of good and service available, and U.S. MNCs alone provide employment to over 30 million people (BEA 2009). In addition, they are major drivers of economic growth worldwide and contribute significantly to the tax revenues of host governments.

As with NGOs, a case study will be useful in describing the role of MNCs in developing countries. Energizer Holdings is a five billion dollar St. Louis-based company whose subsidiary, Eveready East Africa, produces batteries and other

household goods in Kenya, with distribution to Tanzania and Uganda (Fortune 2008). Eveready is a significant employer in the town of Nakuru (employing 250 people), provides cheap goods to local consumers, and conducts a number of corporate social responsibility projects (Eveready 2009). As a member of Kenya's Sameer Industrial Park, Eveready also represents what the Kenyan government hopes will be a wave of new foreign investment.

Organizational Attributes

As opposed to NGOs and GOs, the defining characteristic of corporations is the profit motive. This bottom-line defines cost-effectiveness as the singular criterion of success and, according to conventional economic wisdom, results in optimal efficiency. This narrow goal definition, however, omits considerations of "the greater good" except in the sense that a maximally efficient economy promotes aggregate growth (the "rising tide lifts all boats" argument). The four differences I focus on in MNC behavior from other types of organizations are results of this definition.

The first effect is on product quality. If it is the most profitable course of action, firms can provide very high-quality goods, but given an informational disparity, they are more likely to exploit it, sacrificing quality for profit. As Carl Shapiro puts it, "Imperfect information will tend to cause a reduction in the quality of products provided" (Shapiro 1982, 27). As a result, although firms are capable of

producing high-quality goods, they are incentivized only to produce a high-enough quality to stimulate demand and to avoid incurring legal action. Eveready, for example, is incentivized to manufacture safe, functional and reasonably long-lasting batteries, but they gain little by increasing the battery life, as it will reduce the frequency with which consumers must purchase their product.

Another way that corporations can increase profits at their consumers' expense is through their choice of distribution methods. The rationale is simple; as Jon Elster puts it, "If they adopt criteria that emphasize equity at the expense of efficiency, they might go out of business" (Elster 1993 138). As a result, corporations are more likely to sell to the highest bidder, hire the cheapest labor, and locate factories where costs are lowest, regardless of other impacts. Even corporate social responsibility projects often target the most vocal stakeholders, as Jenkins (2004) argues, or those with the most power, as Clarkson (1995) contends. While it is hardly worth mentioning that Eveready sells its batteries based on the ability of consumers to pay for them, it is notable that the company is unlikely to consider the relative need of prospective employees when hiring. Eveready's support of the Mater Heart Run, a high-profile fundraising event for a local hospital, demonstrates a bias towards vocal stake-holders in the company's CSR programs, given the small donation and large publicity it entailed (Eveready 2009).

Perhaps more marked than the deficiencies of the positive impacts of MNCs are the negative impacts, particularly the unintentional ones. As major users of natural resources, producers of huge quantities of products and byproducts, and

institutions defining the activities of tens of millions of workers, MNCs have significant externalities. The singular focus on the bottom-line discourages amelioration of these effects, except to prevent legal action. This was clearly demonstrated in one of Energizer's U.S. plants in 1990.

> *On March 27, 1990, the National Institute for Occupational Safety and Health (NIOSH) received a request from the Oil, Chemical & Atomic Workers (OCAW) International Union to conduct a health hazard evaluation at the Ralston Purina Company Eveready Battery Company electrolytic manganese dioxide (EMD) plant in Marietta, Ohio. The union reported that two employees had Parkinson-like disease—a neurologic syndrome which could be related to chronic manganese toxicity* (Kawamoto and Hanley 1995).

Although NIOSH found that the factory was legally compliant with federal regulations, the evaluators had numerous concerns with the current manganese levels, as well as with a variety of other environmental health and safety issues. This bare-minimum approach to environmental sustainability reflects the organizational incentives, although Eveready's website contends that "what is good for the environment is good for our business", perhaps reflecting a broader ideological shift in the sector (Eveready 2009).

There is a massive literature on the comparative efficiency of public and private enterprises, which at its most basic reduces to the idea that "[u]nder strong assumptions, a competitive equilibrium is pareto optimal" (Megginson and Netter 2001, 8). This idea that profit-based competition results in maximal efficiency is borne out by many studies [e.g. Majumdar (1998), Tian (2000), Dewenter and Malatesta (2000)], although Megginson and Netter note that this outcome operates only under competitive circumstances, and when informational disparities, output

distribution methods, and externalities are ignored[13]. As those factors are accounted for in this paper, I assume that Eveready can produce batteries at a lower cost per unit than NGOs or government agencies, and that MNCs are generally more efficient.

MNC Constraints and Resources

According to Hansmann and Kraakman (2001), the five features which characterize the corporate form are:

> *(1) full legal personality, including well-defined authority to bind the firm to contracts and to bond those contracts with assets that are the property of the firm as distinct from the firm's owners, (2) limited liability for owners and managers, (3) shared ownership by investors of capital, (4) delegated management under a board structure, and (5) transferable shares (Hansmann and Kraakman 2001 1).*

The first two features—limiting liability and legal personality—allow corporations to take risks that other organizations cannot, and to interact with other actors in ways that other organizations cannot. The third through fifth features noted by Hansmann and Kraakman place some constraints on corporations, largely, as those authors point out, in making them responsible to shareholders[14]. However, as these constraints largely define the organizational goals of corporations, rather than limiting possible behaviors, corporations can be considered relatively unconstrained.

---

[13] Wording is my own.
[14] Significantly, this elevation of shareholder interests establishes the profit motive as a legal responsibility of corporations.

Beyond shareholders, corporations have even fewer responsibilities. Unlike NGOs, corporations are not responsible to the government in any way, and unlike government agencies they have no responsibilities to the general population. They do, however, have to respect the interests of their employees, and, very significantly, consumers. The need to maintain positive brand identification limits corporations to behavior that at the very least does not offend consumers. At the same time, a number of factors, including negative perceptions of corporate motives (due to profit-seeking behavior that is fundamentally at odds with consumer interests) and concerns of corporate neo-colonialism make this task more challenging, and weaken the ability of MNCs to provide both public and private goods. Thus, despite some important freedoms, corporations are moderately constrained.

These constraints, however, fail to limit the importance of MNCs in a variety of spheres by dint of their sheer size. In 2007, total sales by U.S. MNCs and their majority-owned foreign affiliates topped $13 trillion. Thirty-seven of the 100 largest economies in the world are MNCs (World Bank 2008, Fortune 2008). The vast majority of this wealth is created, accumulated, and spent in the developed world, but even flows to Africa exclusively are significant and growing. In 2008, total FDI to Africa totaled $61.9 billion and was growing at 12.1% (African Economic Outlook 2009). In addition to financial resources, many MNCs belong to large business associations with enormous lobbying power and some are so integral to the economies they operate in that they hold significant political sway.

MNC Types of Impact

Unlike NGOs and USAID, MNCs for the most part do not actively attempt to impact poverty. As a result, their impacts on some types of determinants are fairly limited. As a category of determinants that are largely based on services, human capital in particular is not very significantly impacted by MNCs. Some MNCs conduct training and employee health programs, such as Eveready's provision of HIV/AIDS medical and education services to employees and their families, which increase human capital; but not all MNCs conduct such programs, and, like Eveready's, they are frequently limited in scope. Additionally, as shown by the case of Eveready's U.S. plant, MNCs can have negative impacts on human capital, such as through health hazards or the hiring of youths who would otherwise be in school. MNCs are therefore not well suited to or highly involved in human capital promotion.

Instead, as a study of participants in UNCTAD's global compact showed, MNCs prefer social responsibility projects targeting environmental issues (Barkemeyer 2009). The reason for this preference may lie in the externalities of manufacturing. Pollution, natural resource exhaustion, and other taxes on natural capital all result from manufacturing, transportation of goods, and other corporate activities. Negative public opinion (and therefore brand image) in the U.S. due to these impacts poses a threat to profits, and as a result, MNCs are incentivized to undertake corporate social responsibility projects to mitigate these impacts. As the biggest users of natural resources and the biggest polluters, MNCs have a large

impact on natural capital, and although this impact is negative, they are well suited to changing their impact (Abdul-Gafaru 2009, 50).

Similarly massive is the impact of MNCs on market conditions. As major employers, traders and producers, MNCs affect nearly every aspect of income availability. Eveready's presence in Nakuru has increased the availability of employment locally and the availability of domestically-produced batteries nationally; the company's labor policies and compensation levels contribute to the setting of regional norms for these practices; and across Africa, the ability of workers to find employment and earn enough money to stay out of poverty is significantly impacted by the tens billions of dollars of foreign investment that enter the continent every year. This impact is not always positive, as exposés of sweatshop labor around the world have demonstrated, but they have the potential to be very positive. MNCs therefore have a large impact on income availability and are well suited to promoting its improvement.

The predictions discussed in the last three sections are presented below in Figure 2.4.

Figure 2.4 – Organizational Attributes and Relevance to Determinants

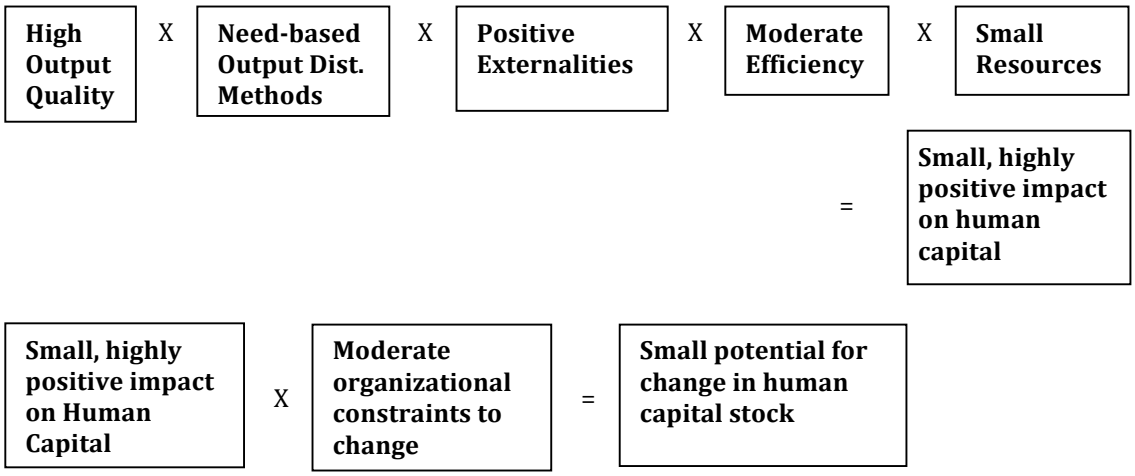
Organizational Attributes	**NGOs**	**GOs**	**MNCs**
Output Quality	High	Medium	Medium
Output Distribution Methods	Need-based	Fairly Need-based	Commercial
Generation of externalities	Positive	Positive	Negative
Efficiency	Moderate	Moderate	High

Organizational Attributes	NGOs	GOs	MNCs
Legal Constraints	Moderate	Moderate	Low
Resources	Small	Large	Large
Human Capital	Highly involved	Highly involved	Slightly involved
Natural Capital	Fairly involved	Slightly involved	Highly involved
Market Conditions	Slightly involved	Fairly involved	Highly involved

Summary: Organizational Impacts and Potentials for Change

The organizational characteristics can now be added to this weighting matrix to determine the overall impact. Figure 2.5 gives an example of this aggregation using NGOs and social capital. As discussed earlier, democratic distribution methods and positive externalities both contribute to a positive impact; thus NGOs are well suited to the promotion of social capital. Their overall resources, however, and their current activities relating to social capital are quite limited, so the net impact is also relatively small. Given the moderate legal and non-legal constraints on NGOs, there is potential for a change of impact, but the resource limitations prevent this potential change from having a significant impact.

Figure 2.5 – NGO Impacts on Human Capital and Potential for Change



Again, it is important to stress that these generalized and theoretical results may not perfectly fit specific organizations. They do, however, give a guide as far as how to think about evaluating organizational impacts and potentials for change. Figure 2.6 gives summarized results. In general, NGOs have the most positive impacts, but are limited in the extent of these impacts and the potential for change. USAID has slightly less positive impacts and a slightly larger impact, with a consequently greater potential for change. Corporations, on the other hand, have mixed positive and negative impact, but have significant potential for change.

Figure 2.6 – Organizational Impacts and Potentials for Change

	NGOs	**USAID**	**MNCs**
Current Impact	Moderately sized, positive impact	Moderately sized, fairly positive impact	Large, negative impact.
Potential for Change	Small	Moderate	Large

Beyond variations between individual organizations, there are also likely to be variations within organizational types in the impacts they have on different determinants of poverty. Additionally, there may be aspects of different determinants of poverty that make them better or worse suited to be addressed by different actors, as was hinted at earlier. This will receive more attention in the case studies that follow and in the conclusion of the paper. For the time being, these discrepancies will be ignored in order to avoid their acting as a confounding variable to the model being examined. However, the possibility of comparative advantages

in different sectors is important to keep in mind. In order to change American impacts on all four types of determinants, all three types of organizations may need to be involved. The next three chapters will test the hypotheses developed in this chapter on data from Kenya.

Bibliography

Abdul-Gafaru, A. 2009. "3. Are multinational corporations compatible with sustainable development? The experience of developing countries." *Multinational Enterprises and the Challenge of Sustainable Development*: 50.

Agency Financial Report. 2009. Washington, DC: USAID.

AIDS in Kenya: Trends, Interventions, and Impact. 2008. Nairobi, Kenya: Government of Kenya.

Annual Report. 2008. Atlanta, GA: CARE USA.

Barkemeyer, R. 2009. "Beyond compliance–below expectations? CSR in the context of international development." *Business Ethics: A European Review* 18(3): 273–289.

Brody, E. 1999. "Tax Treatment of Nonprofit Organizations: A Two-Edged Sword?(with J. Cordes).." *Evelyn Brody*: 31.

CARE International Evaluation Policy. 2009. Atlanta, GA: CARE International.

Chou, Shin-Yi. 2002. "Asymmetric information, ownership and quality of care: an empirical analysis of nursing homes." *Journal of Health Economics* 21(2): 293-311.

Clarkson, M. B.E. 1995. "A stakeholder framework for analyzing and evaluating corporate social performance." *Academy of management review* 20(1): 92–117.

Consolidated Financial Statements. 2008. Atlanta, GA: CARE USA.

Countries. *The United States President's Emergency Plan for AIDS Relief*. Available at: http://www.pepfar.gov/countries/index.htm [Accessed April 5, 2010].

Davis, Mark A. 1993. "Nursing Home Ownership Revisited: Market, Cost and Quality Relationships." *Medical Care* 31(11): 1062-1068.

Elster, Jon. 1993. *Local Justice*. Russell Sage Foundation.

Fortune 500 2008. 2008. *Fortune Magazine*. Available at: http://money.cnn.com/magazines/fortune/fortune500/2008/full_list/ [Accessed April 2, 2010].

Gertler, Paul J. 1989. "Subsidies, quality, and the regulation of nursing homes." *Journal of Public Economics* 38(1): 33-52.

Hansmann, H. 1980. "The Role of Non Profit Organization." *Yale Law Journal* 89(5): 835–901.

Hansmann, H., and R. Kraakman. 2000. "End of History for Corporate Law, The." *Geo. LJ* 89: 439.

Jenkins, R. 2004. "Globalization, corporate social responsibility and poverty." *Development* 47(3): 46.

Kawamoto, Melody M., and Kevin W. Hanley. 1995. *HEALTH HAZARD EVALUATION REPORT - HETA 90-0214-2523 RALSTON PURINA COMPANY EVEREADY BATTERY COMPANY - MARIETTA, OHIO*. NIOSH.

Knoke, D., and D. Prensky. 1984. "What Relevance Do Organization Theories Have for Voluntary Associations?.." *Social Science Quarterly* 65(1): 3–20.

Leat, D. 1993. "Managing across sectors Similarities and differences between for-profit and voluntary non-profit organisations.".

Majumdar, S. K. 1998. "Assessing comparative efficiency of the state-owned mixed and private sectors in Indian industry." *Public Choice* 96(1): 1–24.

McKelvey, Bill, and Howard Aldrich. 1983. "Populations, Natural Selection, and Applied Organizational Science." *Administrative Science Quarterly* 28(1): 101-128.

McPherson, M. 1982. "Size of Voluntary Organizations, The." *Social Forces* 61: 1044.

Megginson, W. L, and J. M Netter. 2001. "From state to market: A survey of empirical studies on privatization." *Journal of economic literature* 39(2): 321–389.

Mincer, J. 1958. "Investment in human capital and personal income distribution." *The Journal of Political Economy* 66(4): 281–302.

Miner, J. B. 1980. "Limited domain theories of organizational energy." *Middle range theory and the study of organizations*: 273–286.

Mintzberg, Henry. 1983. *Power in and Around Organizations*. Prentice Hall College Div.

Nancy, Gilles, and Boriana Yontcheva. 2006. *Does NGO aid go to the poor?* International Monetary Fund.

Ostrom E. (2000) Social Capital: A Fad or Fundamental Concept? In Social Capital: A Multifaceted Perspective, P. Dasgupta and I. Seragilden eds. Washington DC: World Bank. Available at: http://books.google.com/books?id=6PZ8bvQQmxEC&pg=PA172&dq=ostrom+2001+%22human+capital%22&lr=&as_drrb_is=b&as_minm_is=0&as_miny_is=2001&as_maxm_is=0&as_maxy_is=2002&as_brr=0&cd=1#v=onepage&q&f=false [Accessed April 7, 2010].

Piachaud, D. 2002. *Capital and the determinants of poverty and social exclusion*. Centre for Analysis of Social Exclusion, London School of Economics.

Pinder, Craig C., and Larry F. Moore. 1980. *Middle range theory and the study of organizations*. Springer.

Reid, E. J, and J. A Kerlin. 2006. "The International Charitable Nonprofit Subsector in the United States: International Understanding, International Development and Assistance, and International Affairs." *The Urban Institute, Center on Nonprofits and Philanthropy*.

Schwab, Klaus. 2009. *Global Competitiveness Report*. Geneva, Switzerland: World Economic Forum. Available at: http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm [Accessed April 7, 2010].

Sen, Amartya. 2000. *Development as Freedom*. Reprint. Anchor.

Shapiro, C. 1982. "Consumer information, product quality, and seller reputation." *The Bell Journal of Economics* 13(1): 20–35.

Smelser, Neil J., and Paul B. Baltes. 2001. *International encyclopedia of the social & behavioral sciences*. Elsevier.

Social Reponsibility. *Eveready East Africa Ltd.* Available at: http://www.eveready.co.ke/socialresp.html [Accessed April 8, 2010].

Tian, G.L. 2000. "State shareholding and corporate performance: a study of a unique Chinese data set." *Working Paper, London Business School, London*.

Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/ AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008. Available at: http://www.pepfar.gov/documents/organization/108294.pdf [Accessed April 5, 2010].

USAID Primer: What We Do and How We Do It. *USAID*. Available at: http://www.usaid.gov/about_usaid/primer.html [Accessed April 5, 2010].

Weisbrod, B. A. 1998. *To profit or not to profit: The commercial transformation of the nonprofit sector*. Cambridge University Press.

Weisbrod, B. A, and M. Schlesinger. 1986. "Public, private, nonprofit ownership and the response to asymmetric information: the case of nursing homes." *The economics of nonprofit institutions: Studies in structure and policy*: 133–151.

Wilderom, Celeste P. M., and John B. Miner. 1991. "Defining Voluntary Groups and Agencies within Organization Science." *Organization Science* 2(4): 366-378.

Woolcock, M. *Global Poverty and Inequality: A Brief Retrospective and Prospective Analysis*. Brooks World Poverty Institute.

Zinn, J. S. 1994. "Market competition and the quality of nursing home care." *Journal of Health Politics, Policy and Law* 19(3): 555.

Zinn, Jacqueline S., William E. Aaronson, and Michael D. Rosko. 1993. "Variations in the Outcomes of Care Provided in Pennsylvania Nursing Homes: Facility and Environmental Correlates." *Medical Care* 31(6): 475-487.

CHAPTER III – DEFORESTATION CASE STUDIES

In 2004, Kenyan environmental activist and legislator Wangari Maathai made history when she became the first African woman to win the Nobel Peace Prize. Maathai's prominence rose from her creation and leadership of the Greenbelt Movement (GBM), an environmental NGO promoting conservation and the planting of trees. Since the organization was founded, over 45 million trees have been planted an effort that has become a symbol of the ability of Kenyans to solve their own problems (Greenbelt Movement 1/13/10). In a country that suffers from droughts associated with massive deforestation and that is heavily dependent on its forests for everything from energy to building supplies to tourism revenue, the GBM's achievements are momentous.

Unfortunately, the organization's work is not complete, and deforestation and its effects still plague Kenya. According to the Food and Agriculture Organization's (FAO) Forest Resource Assessment, Kenya has low forest cover at 6.2% of total land area, and this percentage has been dropping for decades. A combination of the high demand for wood and arable land, and government

mismanagement and corruption, has precipitated this change (KFS 2007). "The dwindling forest cover", write Obare and Wangwe (1998), "has a severe effect on the climate, wildlife, streams, human population especially forest dwellers". Shortages of raw materials for manufacturing and falling tourism revenue undermine economic growth; rising prices for cooking fuel and building materials raise the cost of living; and deterioration of water sources and of soil contribute to illness and malnutrition. In these and other ways, deforestation poses a major challenge to poverty alleviation in Kenya.

In response, a number of organizations have stepped in to try to supplement GBM's efforts to reverse this trend. Among them are USAID, the Rainforest Alliance, and Mobil Oil. Calling on what they perceive as their organizational strengths, these organizations, and others, have taken a number of approaches to combating deforestation with varying success. USAID's Forest/Rangeland Rehabilitation and Environment Management Strengthening (FORREMS) project sought to provide alternative modes of income generation to local communities in order to combat timber poaching, but it was significantly hampered by the bureaucratic weaknesses that were predicted for government agencies. Rainforest Alliance enjoyed considerably more success by effectively and efficiently certifying tea farms with sustainable forestry practices. Mobil Oil simply supported the Greenbelt Movement, but by providing capital at a critical point, this highly efficient intervention had a significant impact. All three of these cases reflect the organizational attributes and associated impacts discussed in the last chapter, as well as instructive deviations. All

three of these organizations have helped to combat deforestation and therefore poverty as well, but both Rainforest Alliance and Mobil's actions show a more effective intervention and a greater potential for improved impact than do USAID's. As the situation stands today, Kenya's dwindling forests remain a major concern and a significant cause of poverty in the country.

In the next two sections, I provide some background on deforestation in Kenya and discuss the particular challenges and opportunities it poses as a natural capital determinant of poverty. In the following three sections, I examine each of the cases mentioned above and evaluate them on the organizational attributes developed in the previous chapter; and in the final section I evaluate my hypotheses and discuss how the conclusions of the three cases can be generalized.

Deforestation in Kenya

Kenya has an overwhelmingly agricultural economy, with 79.5% of the population living off the land (Earth Trends 2003, 1). At the same time, however, 80% of the country is considered arid or semi-arid, severely constricting the area available to be cultivated by the country's 35.5 million inhabitants (Kahl 2006, 125). As a result, fertile, forested areas are highly coveted—undermining conservation efforts by the local population. For the 64% of farmers growing crops on 2 hectares or less, this land represents a vital opportunity to escape poverty (Ibid.128). Squatters have felled and burned areas for cultivation, poachers have extracted

timber and animals, and businessmen and farmers have won government excisions of protected areas. During election years, Kenyan politicians have even granted tracts of forest to constituents. The Kenyan Forest Service, which is in charge of protecting these resources, is consistently underfunded and understaffed, with a single forest guard in charge of policing as many as 3000 hectares with inadequate training and weapons (KFS 2007, 8). As a result, Kenyan forests have steadily declined.

Wangari Maathai has framed the deforestation issues largely in terms of water, calling the five major Kenyan forests the nation's "five water towers". Already, droughts regularly plague the country, with the most recent in September 2009 leaving over four million Kenyans in need of long-term water and food aid (AP 10/19/09). Additionally, recent years have seen paper mills, faced with high wood prices, closing and eliminating jobs, and massive migration from the increasingly infertile countryside (KBC 5/9/08).

To stem the tide, the Kenyan government banned commercial logging in 1999, but as forest cover has continued to decline, this is clearly inadequate. Consequently, policymakers and development experts have turned to reforestation projects and alternative income generation to try to reduce the impact of the illegal timber harvesting that continues.

Combating Deforestation as a Drain on Natural Capital

Deforestation, as a drain on Kenya's stock of natural capital, presents unique challenges and opportunities to organizations looking to combat poverty. In particular, pollution and other unintentional forms of degradation play an important role in depleting stocks of natural capital. In the case of deforestation, these would include businesses and other organizations that utilize wood products as well as farms and other enterprises that contribute to land pressures. The fact that logging and agricultural expansion are cited as some of the primary causes of deforestation in Kenya confirms this hypothesis. In a study of the potential poverty impacts of reforestation in neighboring Ethiopia, Reynolds et al. (2009) highlight these causes as well as the cost efficiency of natural capital interventions. Citing Maathai and the Green Belt Movement's successes in Kenya, they argue that boosting natural capital, like human capital, can achieve a large impact with limited resources. Extrapolating from this argument, efficiency is probably less important for deforestation interventions as financial constraints are reduced. If the project involves a lot of service delivery (e.g., tree planting), output quality and distribution methods might be fairly important, but for the most part, the expectation is that projects that are well-designed to have exclusively positive environmental impacts (both direct and indirect) will be the most successful, and the other attributes will be less significant.

GO Case Study: USAID's Reforestation and Income Generation Efforts

U.S. government agencies, including USAID, run a wide variety of programs to target deforestation and other environmental issues. These programs are often large and complex, tackling the issue from a variety of angles. Unfortunately, this complexity seems likely to compound the predicted inefficiency of GO programs, and USAID's efforts to combat deforestation in Kenya are no exception.

USAID Kenya has made natural resource management a top priority, including "Improved Natural Resources Management in Targeted Biodiverse Resource Areas" as one of six strategic objectives in its 2006-2011 Strategy Statement and highlighting the challenges to economic degradation posed by illegal logging and environmental degradation (USAID 2006)[15]. This objective (SO5) was included in the previous strategy statement as well, and USAID has had a longstanding commitment to environmental preservation in Kenya. In its detailed description of SO5, the agency highlights the importance of forests, writing,

> *Forests are the protectors of critical water catchment areas, and loss of forests causes erosion and increased sedimentation of waterways and coastal areas. Wood provides an estimated 98 percent of all domestic fuel in Kenya today. Forest conversion for agriculture, fuel wood collection for domestic use and markets, and excessive timber and non-timber product collection are rapidly depleting Kenya's forests* (USAID 2005, 6)

In order to address this challenge, USAID Kenya created the Forest/Rangeland Rehabilitation and Environment Management Strengthening (FORREMS) project in

---

[15] Given USAID's mandate to promote US national interests, this objective is presented as a step towards developing Kenya as a trade partner.

2003. The project was designed to facilitate significant reforestation; to address the economic incentive structures that had undermined conservation for years; and to increase the ability of the Kenyan government to enforce conservation. The two primary aspects of the project are:

> *i) Institutional strengthening through capacity building, technical assistance and material support to KWS and the Forest Department (FD);*
>
> *ii) support for the implementation of participatory forestry management systems around Arabuko Sokoke, Mt. Kenya and Mukogodo forest through the application of low cost and appropriate technologies and increased diversity of forest-based businesses* (USAID 2010).

Activities under Section (i) included, training forest guards; helping to draft natural resource management plans and natural resource inventories; and providing computers, furniture, vehicles, and other infrastructure to the relevant government agencies. Activities under Section (ii) included, planting trees on farms, developing water sources, training community forest guards, and developing business plans for communities around forests to start nature-based enterprises (NBEs) such as butterfly pupae, mushrooms, silk, opuntia, aloe, and honey production, tree nurseries, herbal pharmacies, eco-lodges, and fuel wood collection (USAID mid-term eval 2006). The project also sought to reforest large areas, and to advocate for coherent and effective conservation legislation.

Funding for FORREMS was provided entirely by a congressional earmark for biodiversity preservation and was implemented by a number of NGO and for-profit contractors. Funded at $700,000 in 2006, the project sought to create significant change at three primary areas: Mukogodo Forest, Mt. Kenya Forest Reserve, and

Arabuko Sokoke Forest, with projects in a number of other communities (ibid. 21). In 2005, measurable objectives included, reconverting 2,800 hectares of land to forest, providing financial benefits to 3,320 community members, introducing five new conservation tools or technologies, and promoting a new forest policy through 60% of the legislation process. As per the model's hypothesis, USAID suffered from governmental inefficiency, but generally reached appropriate populations with its interventions and sought to maximize the benefits of impacts outside the project design. Output quality, however, was lower than expected, resulting in surprisingly poor outcomes.

According to its metrics, the FORREMS project was highly successful in 2005. Over 32,000 hectares were reconverted (1140% of the objective), 5,800 stakeholders benefited from NBEs and other activities, and the forest policy reached 70% passage by USAID's estimation (USAID eval 2005 11). The annual evaluation of the project in 2005 also found increased capacity in government agencies and NGO partners and a range of other achievements. An outside review team in 2006, however, observed a number of weaknesses in both project design and implementation.

Output Quality

The greatest deficiency of the FORREMS project was in output quality. In particular, Martens' broken feedback loop resulted in services that were poorly

suited to local conditions and thus produced sub-par results. The project design emphasized consultation and engagement with local stakeholders, and during the planning process, "over eighty local experts (external to USAID), representing nearly forty local and international organizations, were engaged" (USAID SO5 Strategy 2005, 8). The project, however, still demonstrated a disconnect between the USAID administrators and the target community.

While the indicators suggested project success, the 2006 evaluation team criticized these indicators for "fail[ing] to relay the impact to biodiversity conservation" (USAID mid-term eval 2006, 73). The 5,800 beneficiaries touted by USAID reports only received $32,280 in all in 2005 from the project's income-generating activities (an average of $5.56 per person), raising questions about the viability of the project as an alternative to environmentally unsustainable economic activities (Ibid 42). The review team found that many beneficiaries did not receive the support they required in developing business plans and sustainable ownership models; that USAID did not adequately incorporate local leaders; and that the biodiversity impacts of the NBEs was never determined. As a result, many entrepreneurs were unable to find markets for their goods; the environmental benefits of some of the activities were unclear; some projects were in danger of being appropriated by their NGO partners; and NBEs in at least one area were never launched. In a case study of the project's site in the town of Dida, Shreckenberg and Luttrell (2009) even found the project to be having negative effects on local poverty (226).

There are many reasons for these shortfalls, but the disconnect between the measurement and evaluation indicators on the one hand and the results on the other, demonstrates the presence of the broken feedback loop. "If local people, for whom efforts are being made for better and more sustainable NRM practices, do not see improvement or change for the better", wrote the evaluators, "then impacts will be limited or nonexistent" (Ibid. 73). It is possible, however, that this problem is specific to service delivery, as the project's efforts to advance legislative conservation efforts contributed to the passing of three major pieces of legislation between 2004 and 2006 to the positive response of local NGOs (Daily Nation 4/12/05).

Output Distribution Methods

Unlike designing the interventions, identifying the target populations and directing output distribution methods towards them was made relatively simple in this project, as the communities immediately surrounding the forests had the most significant impacts. Additionally, as most interventions focused on creating income-generating opportunities, they naturally targeted the underemployed (and therefore those in the greatest need). USAID also identified women as an underserved group, writing,

> *Rural women are major caretakers and users of forests. They are the main gatherers of fodder and fuel, and they seek out fruits and nuts that are important for their families' nutrition. However, women typically have unequal access to forestry information, training, education, and research. As*

> *a result, national capacity for the development, conservation, management, and protection of forests and forest ecosystems is constrained* (USAID SO5 Strategy 2005, 5).

Women were then emphasized in the project plan, and have enjoyed nearly equal participation in the program (USAID PMR 2005 9). Populations not living near forests that needed employment were not addressed, but as the purpose of the project was to reduce deforestation and therefore benefit disadvantaged groups that were most significantly impacted by this problem, this did not detract from the project's beneficial distribution of services. However, while participation data across the project was not disaggregated by income, Shreckenberg and Luttrell found that "[o]verall, the case studies showed that the very poor participated less in [participatory forest management] – in part because of membership fees and lack of time to attend meetings – and were not represented on association committees" (233). Thus outputs were not distributed in a needs-based manner. The fact that FORREMS was funded by a Congressional earmark for biodiversity preservation (as opposed to poverty alleviation) demonstrates the multiple objectives frequently at work at USAID, and may in part be responsible for this biased population selection.

Production of Externalities

One unique aspect of the FORREMS project is that it was designed around the recognition of the benefits of positive externalities, as the review team pointed out (USAID mid-term eval 2006, 31). By addressing threats to biodiversity indirectly, USAID embraced the environmental perquisites of poverty alleviation. Despite this

awareness, however, the link between poverty alleviation and environmental conservation was not well established or monitored and no other potential externalities were discussed or measured. In some areas where the project was implemented, a *landscape approach* to conservation was used, which "force[d] an integrated analysis of a target area's characteristics, of its potential for development and of the subtle relationships that influence the health of the whole" (Ibid 25). This more holistic approach was designed to take externalities into account, but it was not used in all areas, and, coupled with a lack of monitoring of explicit biodiversity indicators, this made the ecological impact of the project unclear. The FORREMS project therefore underperformed the model in its generation of externalities.

Efficiency

As was expected, USAID was not able to redeem itself through its efficiency. In a damning statement, the 2006 evaluators wrote,

> *Too many actors, too many agencies involved in the same program, too many "studies and plans" and not enough funding actually going to actually implement programs with community based organizations who are in desperate need of often small amounts of funding to launch their nature-based activities* (Ibid. 67).

USAID's convoluted financial bureaucracy, its complex subcontracting system, and a lack of adequate information, among other factors, repeatedly impeded work or led to sub-optimal outcomes. None of USAID's planned activities with the Forest Department took place in 2005 due to reimbursement snafus, resulting in no training of forest guards, policy development, or any other activities (Ibid. 63). For

those activities that did occur, USAID's complex network of subcontractors further impeded progress. "There are too many partners, too many grant agreements, which has resulted in USAID's heavy management burden…" wrote the evaluators. "Partners end up having separate work plans that are difficult to harmonize" (Ibid. 67). Furthermore, a lack of good local information led to poor decisions by USAID, such as providing $500,000 in funding for the establishment of a butterfly house in Mombasa that the review team was unsure would generate significant benefits or create benefits that would reach the intended recipients (Ibid. 48). All of these problems reflected more general flaws in the agency, as a 2003 GAO audit reported:

> *…USAID's agency managers continue to lack complete, reliable, and timely information needed to make sound, cost-effective decisions. In addition, the agency has had long-standing financial management weaknesses and has been unable to provide its managers with reliable financial information* (GAO 2003, 3).

All of these findings are consistent with, if somewhat more extreme than, the predictions of the model. While there are no indications that USAID did harm through the FORREMS project, the benefits were considerably limited by efficiency and output quality problems.

Constraints and Resources

Given FORREMS' dubious success, its potential as a mechanism for improving the overall U.S. impact in Kenya is limited. An expansion of the project would be unlikely to provide significant benefits in the form of greater income or forest resource preservation, as the problems that plague the project now would continue

to do so. The project would have to be improved before such an investment would be worthwhile. The natural starting place would be to design the project better so that the NBEs generated substantial income. Unfortunately, USAID is only able to employ a handful of staff in each country office and therefore has limited local information. These staff are charged with numerous projects in a wide range of sectors and can do little to facilitate feedback from the recipients of the projects. Their ability to design appropriate projects that take into account local markets, local organizational norms, and other factors that were not adequately considered in the original design is thus severely constrained. With such a small workforce and such a broad scope of work, the broken feedback loop makes it difficult for USAID to produce high quality outputs.

Similarly, USAID's lack of information and staffing impedes adequate consideration of the positive and negative externalities of the project. Since the funding comes from a Congressional earmark, USAID cannot simplify the project to directly address poverty, so it must somehow be better able to anticipate externalities. Even if this were possible, one of the primary criticisms of the evaluation team was that there were too many reports and plans and not enough actual service provision, so a greater focus on predicting externalities could be seen as counterproductive.

Finally, even if USAID were somehow able to improve the output quality and externalities of the FORREMS project, the massive inefficiency of the project could still cripple any positive impacts. There are doubtlessly many reforms that could

improve USAID's efficiency, and Carol Lancaster argues for some of them in *Organizing U.S. Foreign Aid*; but much of the agency's bureaucratic hurdles are products of Congressional oversight and reporting rules. It is thus unlikely that the agency could completely streamline its disbursement and subcontracting systems. If the reforms that are possible were coupled with efforts to design more locally appropriate projects with higher output quality and more positive externalities, perhaps USAID's impact through FORREMS could be significantly improved; but given the constraints to change, this potential is low.

NGO Case Study: Rainforest Alliance's Sustainable Agriculture Certification

FORREMS would not have been possible without the support of NGOs. Project sites in Arabuko Sokoke Forest and the Mukogodo area were managed and implemented respectively by Nature Kenya and the Laikipia Wildlife Foundation. These organizations provided local knowledge and local staff as well as experience with conservation work in Kenya—the greatest challenge for USAID. In addition, USAID utilized the technical expertise of two US-based NGOs, The International Small Group and Tree Planting Program (TIST) and Icipe. For these organizations, the impact they have on poverty is essentially the same as that of USAID. As each was contracted to work on a specific aspect of the project, which might be more or less successful than the overall project, there was some variation in impact, but given FORREMS' unimpressive overall performance, these organizations also most likely had a small impact. Most conservation-oriented NGOs in Kenya do not work

on USAID projects and therefore have different impacts. NGOs that operate independently of USAID should, according to the model, achieve higher output quality and more need-based output distribution methods, both of which the case study NGO, Rainforest Alliance, achieved (although it still underperformed the model in output distribution methods).

In choosing a case study, trying to identify a representative or typical impact of NGOs on deforestation is futile. Given the complexity of environmental management and the consequent variety of approaches taken by environmental NGOs, no such typical impact exists. Williams and Cracknell (2010) define nine categories of approaches taken by major international NGOs, including government oversight, research, finance for sustainable projects, and different ways of encouraging corporate sustainability. Most organizations take part in several of these activities and many of these tactics are very widespread. The Rainforest Alliance's agricultural certification program, therefore, although not necessarily representative, is in good company with the 85% of the studied organizations that attempted to modify commodity supply and demand dynamics.

The Rainforest Alliance was founded in 1987 to "conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behavior" (Ventura 2007, 3). One of the primary ways in which it does this is by certifying sustainably produced agricultural and forestry products. Among the crops are cocoa, coffee, ferns, cut flowers, fruits, and, most recently, tea.

In partnership with the Dutch multinational corporation Unilever, Rainforest Alliance certified its first tea farm Kericho, Kenya in 2007. Since then, the program has expanded to other farms in Kenya and internationally.

Tea (like the other crops) was chosen because it is often grown in areas that were previously forested. The Kericho farm, for example, lies on the border of Mau Forest, the largest forest in Kenya and one of the country's "five water towers". Sustainable tea farms preserve indigenous forest both by incorporating forested areas into the plantation, and by using techniques that maintain soil and water quality (Githiru et al. 2009, 6). By certifying agricultural products, Rainforest Alliance seeks to place a premium on sustainably produced crops and thereby help to increase the number of farms using sound environmental practices. To date, eleven farms have been certified in Kenya, covering tens of thousands of hectares. Despite some criticisms of the certification process, Rainforest Alliance's impact on deforestation has been very positive.

Output Quality

This impact begins with a high quality certification process. In order to be Rainforest Alliance certified, a farm must comply with a number of environmental standards and be assessed by an external evaluator. According to researchers, these requirements are stringent and appropriate, and are comparable to other certifications (with the exception of Fair Trade, which also includes pricing

standards) (Van Ommen 2009, Ventura 2007). One criticism of Rainforest Alliance, offered by Feliz Ventura (2007), highlighted various incentive structures that might bias the organization towards overlooking substandard practices or in other ways decreasing output quality in order to in maximize the number of farms in the program. While this is a valid criticism and may have a marginal impact on output quality, the model of NGO behavior discussed in chapter two precludes NGOs from profit-seeking behavior. Anecdotally, Unilever's Kericho farm has witnessed a small increase in forested areas in recent years (due to tree-planting) and now reports 11% of its estates as forested (Githiru et al. 2009, 9). Furthermore, in direct contrast to the challenges faced by the nature-based enterprises in USAID's program, there has been no problem with finding markets or financial viability under the Rainforest Alliance program (van Ommen 2009, 27).

Output Distribution Methods

Although it has failed to reach primarily poor farmers with its program, Rainforest Alliance's program has fairly need-based output distribution methods. At 14,000 hectares, Unilever's Kericho farm is very large. Many of the 500,000 farmers that supply Unilever alone are much smaller and are much closer to poverty. Unfortunately, according to van Ommen, only "10% of certified tea is produced by smallholders" (34). The remaining 90% is therefore produced by wealthier farmers whose enrichment does little or nothing to contribute to Kenyan poverty alleviation.

This discrepancy is a result of costs associated with becoming certified and the fact that smallholders often live in less accessible, rural areas. In order to combat this trend, Rainforest Alliance, Unilever and other organizations have provided subsidies to farmers and have set up extension programs to help reach farmers and provide them with agricultural expertise (Ibid.). These efforts are commendable and the organization clearly has good intentions, but it is still unlikely to be the poorest farmers that are reached by this program. That being said, income generation is not the primary objective of the program. More importantly, by preserving forests and related ecosystems on the plantations, certification benefits all Kenyans living in the vicinity of these forests, both rich and poor.

Efficiency

While the value of these benefits may be difficult to measure, it is fairly clear that the certification program is an efficient way of producing them. Worldwide in 2010, nearly 50,000 farms covering 1.4 million acres had been certified by Rainforest Alliance (Rainforest-Alliance.org 2/10/10). With a budget of $4,211,678 for agricultural programs, this averages just over four dollars per acre (RA AR 2008, 33). Even without factoring in the other activities this money pays for, this compares favorably to the $50 the Nature Conservancy charges for its Adopt-an-Acre program or the $35 the African Wildlife Foundation charges per acre for its conservation program. Admittedly, only a fraction of certified acreage is forested, but if the Kericho farm is at all representative, Rainforest Alliance still has similar cost-

efficiency to the other two organizations. In addition, van Ommen reports that the scale of operations did not hamper efficiency, which has been raised as a concern with sustainably certified products (27).

Externalities

Data on externalities associated with Rainforest Alliance's program is scarce. However, as a project broadly promoting environmental sustainability, it can be assumed that there will be limited negative environmental externalities. Additionally, the project benefits participants economically (an estimated additional $2.69 million for Unilever's supplying farmers this year) even though this is not its primary aim (Waweru 2000, 1).

Resources and Constraints

In view of these findings, it appears that the Rainforest Alliance has had a very positive impact on deforestation and, consequently, on poverty. Although the project has failed to reach the poorest farmers directly, the widespread effects of greater forest conservation probably reach a much broader population. Its impact would thus be best improved through an expansion of the current activities. With 3 million Kenyans employed in the industry, only a fraction of potential farms are currently certified and a large expansion is certainly possible (A24 Media 4/6/10). As most of the cost of certification and of growing sustainable tea is born by tea

companies and, ultimately, by consumers, the cost of such an expansion would be reduced. It remains unclear how much land would be reforested as a result of this change, but at the least, it would prevent the further deforestation of tea plantations, and would simultaneously increase farmer incomes.

MNC Case Study: Mobil Oil's Support for the Greenbelt Movement

One of the primary ways in which USAID and Rainforest Alliance's activities are relevant to poverty is through the economic value of the timber in the forests they seek to preserve. Despite a significant decline in the wake of a 1999 ban on logging, the wood and wood products sector still contributed 1.9% of Kenyan GDP and employed 65,000 workers in 2002 (EPZA 2005, 1). Kenyan exports of wood and wood products to the U.S., however, are insignificant (Ibid. 5). With no major U.S. corporations active in that industry in Kenya, the role of the American private sector in affecting the extent of Kenyan deforestation is extremely limited. This is most likely for the best, however, as American logging MNCs have a terrible environmental and social record in developing countries. Historically, logging operations have largely ignored forest management strategies, causing enormous damage to local ecosystems and depleting host country natural capital stocks. Additionally, due to unwillingness to process timber in host countries, corruption, and repatriation of profits to the U.S, "the economic benefits are minor" (Sizer and Plouvier 29). "While large amounts of capital are involved," write Sizer and Plouvier, "the revenue to national treasuries can be small because most of the profits leave

the country or accrue in the hands of very few, often already wealthy and powerful local people" (Ibid.). Therefore, both current impacts by MNCs, and their potentials for change must be found elsewhere.

As discussed earlier, one of the primary causes of deforestation is unemployment that leads to timber poaching. American MNCs may thus have the potential to impact deforestation in Kenya by employing more workers. An estimated 40% of Kenyans were unemployed in 2008 and would be less likely to poach timber if U.S. MNCs provided more job opportunities in communities surrounding the country's forests (CIA 2010). Additionally, the dependence of most Kenyans on wood or charcoal for fuel is a product of the price of natural gas and other alternatives, so the presence of U.S. petroleum companies is important in providing economical alternatives to fuelwood.

One company in particular, ExxonMobil, had a more direct impact in the late 1970s when the Greenbelt Movement was just getting off its feet. As Wangari Maathai sought to expand her tree-planting project across the country, Mobil's Kenyan subsidiary provided her the necessary capital, allowing the organization to plant some of the first of the 45 million trees that have been planted to date. ExxonMobil is not known for its corporate social responsibility (CSR), but in this case it clearly had a very positive impact (Skjaerseth et al 2008). In recent years, the company has increased its rhetoric in regard to CSR, including sections in its 2008 Corporate Social Responsibility Report on both the environment:

> *ExxonMobil is committed to conducting business throughout the world in a manner that protects the environment. We integrate environmental improvement into our business plans and strategies, and address key environmental issues that are specific to the processes and activities of each business* (Exxon Mobil 2008, 2);

And on economic development:

> *ExxonMobil seeks to create long-term economic and social benefits from our projects and presence. We employ a variety of economic support and incentive programs, including workforce development, supplier development, and strategic community investments—collectively referred to as national content development. Our contributions to economic development allow us to reduce barriers to development in the communities where we operate and are consistent with the objectives of the United Nations* Millennium Development Goals (Ibid.)

This change has been accompanied by environmental improvement showing a greater focus on reducing negative externalities. In 2008, the company reduced significant oil spills by 60% over 2001 and reduced emissions of volatile organic compounds (VOCs) and nitrogen oxide (NOx) (ExxonMobil 6). This improvement, however, is relative to the company's previous reputation as an environmental villain in the wake of disasters like the Exxon Valdez spill in 1989 (Greenpeace listed Exxon Mobil as the "#1 Climate Criminal" in 2003). Additionally, the company's output distribution methods remain highly commercial. Beyond simply being a for-profit company and selling its products to those who can afford them, ExxonMobil spent $144.6 million of its total of $225.2 million in CSR expenditures in the U.S., leaving only a fraction for the rest of the world (Ibid.).

The flip side of these deficiencies is that there is enormous potential for a change in impact. ExxonMobil was the largest corporation in the world in terms of

profits in 2009 at $45 billion (Forbes 2009). If it were to use even a small fraction of that amount to finance CSR projects it could have a large impact. There is an upper limit on the amount it could donate, as it is legally bound to deliver profits to its shareholders, but as the current CSR budget represents .5% of its annual profits, Mobil is nowhere near approaching that limit. The quality and efficiency of Mobil's CSR projects in general are unclear, and a reorientation of its output distribution methods could significantly improve current activities; but if some of this money were spent on financing tree-planting in Kenya, thousands of hectares could be reforested.

As a group, MNCs have a poor environmental record in Kenya. Foreign gold mining companies, for example, have left local water and air polluted with heavy metals and poisonous chemicals as well as the soil and the landscape degraded (Ogola et al. 2001). It is therefore important to note that Mobil's positive record in Kenya is probably in large part a result of its limited role in the country (Kenya has no mining operations, for example); but nevertheless, the Mobil case demonstrates the potential of corporate philanthropy in Kenya.

Conclusion

Given the extent of deforestation in Kenya and its consequences on the health, income, and living expenses of the population, the help of U.S. organizations in fighting this problem may be necessary. USAID's FORREMS project had little

success in this endeavor due to surprisingly low output quality, output distribution methods, and efficiency. Given the legal and bureaucratic constraints to a significant change in operations, it is unlikely that USAID can significantly alter the course of deforestation in Kenya. Mobil Oil, on the other hand, given its vast resources (as predicted by the model) could potentially have an enormous impact if it could be encouraged to focus its output distribution on saving Kenyan forests. Interestingly, while Mobil's success lay in working through a local organization (GBM), some of the primary roots of USAID's failure were a lack of local information. Similarly, Rainforest Alliance enjoyed success through a hands-off approach that allowed farmers to meet criteria however they chose. These results are not a trend, but they do suggest that foreigners alone cannot solve a complex problem like deforestation in Kenya.

Figure 3.1 – Summary of Findings of Deforestation Case Studies			
	USAID	**RA**	**Mobil Oil**
Output Quality Predicted	Medium	High	Medium
Actual	Low	High	-
Output Distribution Methods Predicted	Fairly need-based	Need-based	Commercial
Actual	Not need-based	Fairly need-based	Commercial
Externalities Predicted	Positive	Positive	Negative
Actual	Positive	Positive	Limited
Efficiency Predicted	Moderate	Moderate	High
Actual	Low	High	High

Constraints Predicted	High	Moderate	Low
Actual	High	Low	Low
Resources Predicted	Large	Small	Large
Actual	Large	Small	Large

Perhaps the more significant trend in these results is the importance of externalities to deforestation, as a natural capital determinant of poverty. USAID's FORREMS project, the least successful of the three, did not account well for externalities, a fact perhaps caused by the complexity of the program and its ignorance of local conditions. Rainforest Alliance and Mobil, through simpler, more locally-based projects, enjoyed greater success. To avoid confirmation bias, it is important to note that these findings are only anecdotal, and other factors, like output quality, proved to be crucial as well.

Although USAID underperformed in most categories, the three case studies fit the predictions of the model fairly well (see Fig. 2.6), with no large discrepancies. Rainforest Alliance was able to achieve higher than expected efficiency and reduce its constraints to expansion by harnessing the potential of the private sector. It is important to note, again, that Rainforest Alliance's approach is just one of many that are employed by NGOs in Kenya, but this does not diminish the potential of this type of intervention. By limiting its externalities (which were predicted to be negative), Mobil was also able to outperform the model. Either NGOs or MNCs therefore likely have the greatest potential to help arrest deforestation in Kenya.

Bibliography

2008 Corporate Citizenship Report. 2008. ExxonMobil.

Afrane, Y. A et al. 2008. "Deforestation and vectorial capacity of Anopheles gambiae Giles mosquitoes in malaria transmission, Kenya." *Emerging infectious diseases* 14(10): 1533.

Annual Report. 2008. Rainforest Alliance.

Bosire, Julius. 2005. "MPs Urged to Pass Law on Forests." *Daily Nation*. Available at: http://www.nation.co.ke/page/search/DailyNation/-/1148/1148/-/view/asSearch/-/r4tvx4z/-/index.html [Accessed April 2, 2010].

Costanza, Robert, and Herman E. Daly. 1992. "Natural Capital and Sustainable Development." *Conservation Biology* 6(1): 37-46.

Country Profile: Kenya. 2003. Earth trends.

FAO. *Gobal Forest Resources Assessment 2005*. Available at: ftp://ftp.fao.org/docrep/fao/008/A0400E/A0400E00.pdf [Accessed January 13, 2010].

Fuelwood Gathering and Use in Northern Kenya: Implications for Food Aid and Local Environments. Available at: http://pdf.usaid.gov/pdf_docs/PNADE500.pdf [Accessed January 14, 2010].

Githiru, M., S. Karimi, and T. Imboma. 2009. *Unilever Tea Kenya Limited Avifaunal Assessment Report*. Unilever Tea Kenya. Available at: http://74.125.95.132/search?q=cache:mi75ub_8iukJ:www.rainforest-alliance.org/agriculture/documents/kericho_bird_diversity.pdf+http://www.rainforest-alliance.org/agriculture/documents/kericho_bird_diversity.pdf&cd=1&hl=en&ct=clnk&gl=us&client=firefox-a [Accessed February 11, 2010].

International, Society for Ecological Restoration. 2007. *Restoring Natural Capital: Science, Business, and Practice*. Island Press.

Kahl, Colin H. 2006. *States, scarcity, and civil strife in the developing world*. Princeton University Press.

KENYA FOREST AND COASTAL MANAGEMENT PROGRAMS MID-TERM EVALUATION. Available at: http://pdf.usaid.gov/pdf_docs/PDACJ160.pdf [Accessed January 9, 2010].

Kenyan Tea. *A24 Media*. Available at: http://www.a24media.com/index.php/component/content/article/88-healthenvironment/309-kenyan-tea?directory=1 [Accessed April 6, 2010].

Kola, Emannuel. 2008. "Kenya Broadcasting Corporation:." *KBC News*. Available at: http://www.kbc.co.ke/story.asp?ID=49955 [Accessed January 26, 2010].

Natural Resources Management Programs. *USAID Kenya*. Available at: http://www.usaid.gov/ke/ke.naremgnt/activities.html [Accessed April 9, 2010].

Ogola, Jason S., Winnie V. Mitullah, and Monica A. Omulo. 2002. "Impact of Gold mining on the Environment and Human Health: A Case Study in the Migori Gold Belt, Kenya." *Environmental Geochemistry and Health* 24(2): 141-157.

van Ommen, P. A. 2009. "MAINSTREAMING RESPONSIBLE TRADE IN TROPICAL AGRICULTURAL GLOBAL SUPPLY CHAINS.".

Omondi, Neville. "Kenya: Deforestation affects tourism." *AfricaNews*. Available at: http://voicesofafrica.africanews.com/site/Kenya_Deforestation_affects_tourism/list_messages/28446 [Accessed January 13, 2010].

Rains Finally Come to Kenya, but Hunger Persists. 2009. *Associated Press*. Available at: http://abcnews.go.com/International/wireStory?id=8859643 [Accessed January 26, 2010].

Reynolds, T. W, J. Farley, and C. Huber. 2009. "Investing in human and natural capital: An alternative paradigm for sustainable development in Awassa, Ethiopia." *Ecological Economics*.

Schreckenberg, K., and C. Luttrell. 2009a. "Participatory forest management: a route to poverty reduction?." *International Forestry Review* 11(2): 221–238.

Schreckenberg, K., and C. Luttrell. 2009b. "Participatory Forest Management: A Route to Poverty Reduction?." *International Forestry Review* 11(2): 221–238.

Skjaerseth, J. B et al. 2004. "Limits to Corporate Social Responsibility: A comparative study of four major oil companies." *Lysaker, Norway: Fridtjof Nansen Institute*.

STATUS OF FOREST MANAGEWMENT IN KENYA.pdf (application/pdf Object). 2007. Kenya Forest Service. Available at: http://www.kenyaforestservice.org/pub/STATUS%20OF%20FOREST%20MANAGEWMENT%20IN%20KENYA.pdf [Accessed January 13, 2010].

Sustainable Agriculture. *Rainforest Alliance*. Available at: http://www.rainforest-alliance.org/agriculture.cfm?id=main [Accessed April 9, 2010].

The World Factbook -- Kenya. *Central Intelligence Agency*. Available at: https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html [Accessed April 9, 2010].

Tree-Planting Program. *The Greenbelt Movement*. Available at: http://gbmna.org/w.php?id=13 [Accessed April 9, 2010].

USAID Kenya. 2005. "Strategic Objective 5 - Natural Resources Management.".

USAID Kenya. "Strategy Statement 2006-2011." Available at: http://pdf.usaid.gov/pdf_docs/PDACG965.pdf [Accessed January 13, 2010].

Ventura, Feliz. 2007. *Examining the Rainforest Alliance's Agricultural Certification Robustness*. Available at: http://74.125.95.132/search?q=cache:fsI4XsbrEyAJ:irps.ucsd.edu/assets/021/8422.pdf+Examining+the+Rainforest+Alliance%E2%80%99s+Agricultural+Certification+Robustness&cd=1&hl=en&ct=clnk&gl=us&client=firefox-a [Accessed February 11, 2010].

Waggoner, G. 2000. "Economics and the Environment: What is Kenya Doing?." *Modern Kenya: Social Issues and Perspectives*: 75.

Wangwe, JB, and Lynette Obare. *Underlying Causes of Deforestation: Kenya*. World Rainforest Movement. Available at: http://www.wrm.org.uy/deforestation/Africa/Kenya.html [Accessed January 13, 2010].

Wood and Wood Products - Kenya, 2005. 2005. Export Processing Zone Authority.

Chapter IV - Financial and Business Development Services

If a significant reduction in Kenyan poverty is ever to occur, Kenyans must have the ability to start their own businesses. Unfortunately, they face many obstacles in Kenya's underdeveloped economy. Can these obstacles be best overcome with the help of NGOs, MNCs, or GOs?

In what remains a highly patriarchal society, the Kenyan Women's Finance Trust (KWFT) has accomplished a doubly-impressive feat: it has helped hundreds of thousands of women become entrepreneurs, and it has done so in a way that is financially sustainable. Begun by a group of Kenyan women in 1981 to address women's financial needs, the Trust has grown into a massive microfinance institution with $125 million in outstanding loans. As a result of these efforts, millions of women have been empowered to take control of their financial futures (KWFT 2008). Whether it is to start a business or pay for school fees, access to credit is a life-changing resource.

In addition to KWFT, there are now several other formal microfinance institutions in Kenya, with a total outreach of 287,000 in 2004 by one estimate

(Johnson et al. 2006, 43). Together, these organizations offer credit and banking services to communities across the country that had no access to credit previously. For the most part, however, the poorest entrepreneurs, and those in rural areas, are not reached by these services (Hospes et al. 2002, 22), with only 22.6% of Kenyan adults overall and a virtually none of those without formal education reporting having received credit from a formal lending institution (FinAccess 2009, 11).

Financial and Business Development Services in Kenya

Credit is not the only thing that Kenyan small business owners lack. Whether it is the availability of processors or exporters to buy a product, pesticide sprayers to increase crop yields, or access to higher quality materials, many small entrepreneurs are stymied by business service providers that prefer to deal with larger clients, or are entirely absent from Kenya. In 2003, the informal sector, which constituted 98% of businesses and 30% of employment, contributed only 3% to Kenya's GDP (Riley and Steel 2003). This demonstrates very low productivity in the sector, which stems from the lack of access to these essential business services (Miehlbradt and McVay 2005, 26). As a result, instead of lifting the people it employs out of poverty, "the Kenyan informal sector could be categorized as a dead-end sector consisting mostly of urban subsistence workers" (Antoine 2004, 21).

Nevertheless, microfinance has received the most attention in the effort to help poor Kenyans access business services. "To address poverty, the poor need to access: assets; markets; affordable health care, education; security; and be able to

cushion themselves against unforeseeable economic shocks", write Mutua and Oyugi (2005). "All these need financial resources" (5). In recognition of this, the government of Kenya enacted the Microfinance Act to promote the development of the microfinance sector; and a host of other institutions, led by USAID, have created microfinance organizations to provide credit to the poor. The Women's Economic Development (WEDCO) Project is one example, and has enjoyed considerable success through an efficient, well-managed finance program, although creating distribution methods that reach the poorest Kenyans remains a struggle. For less philanthropic reasons, Citibank Kenya has also contributed to the availability of credit through a very efficient commercial lending program, but its commercial distribution methods leave its impact unclear. As many enterprises have continued to struggle despite increased availability of credit, USAID, the pioneer of Kenyan microfinance, has sought to test the impact of a business development services project to foster market linkage and thereby increase earning capacity. In the next three sections I discuss each of these case studies—WEDCO, USAID's Kenya BDS program, and Citibank—in turn, and then I draw some conclusions about financial and business development services in Kenya, as well as the nature of market conditions determinants of poverty more generally.

NGO Case Study: WEDCO's Microfinance Program

The growth of microfinance in Kenya has been driven by NGOs. Much of this growth has come from domestic organizations, but foreign NGOs also have a sizeable presence. The form of these organizations varies somewhat from formal, client-based programs that are very similar to commercial banks, to more informal cooperative arrangements between the members of the organization. There is also considerable variety in the size of the organizations and how exclusively they focus on microfinance (Hospes et al. 2002, 23). The case study organization, the Women's Economic Development (WEDCO) Project, which is large, formal, and client-based, is therefore not entirely typical of the sector, but it does embody one of the dominant forms. Additionally, like any of the other forms, WEDCO is expected to provide high quality loan products to the poorest Kenyans with some degree of efficiency, and without unduly disturbing existing markets or social structures.

WEDCO has gone through numerous incarnations, beginning as a project of the Canadian International Development Agency, then being taken over by CARE International, and finally coming under the direction of Opportunity International in 2005. In that time, the organization has transitioned from supporting goat raising among Kenyan women to a self-sufficient financial institution serving over 10,000 borrowers with a lending portfolio of over $2.6 million (Opportunity International Annual Report, 20). Like KWFT, WEDCO has sought to empower women financially, although the organization increasingly serves men as well. It has also grown more similar to commercial banks under Opportunity International's direction, and this

has had its costs as far as its ability to reach some target populations; but it remains an important resource for women who likely would be unable to access credit from other institutions.

Output Quality

From the available evidence, WEDCO's provides high quality financial services to its clients. Although micro-loans are beneficial in their own right, simply knowing that they were provided is not enough to understand their impacts. To some extent, the quality of a loan is nonsensical, as the very essence of financial assets is their interchangeability. There is considerable debate, however, about the impact of microfinance on incomes and employment, as well as considerable variety between organizations and between loan types. J. Maalu et al. conducted an evaluation of WEDCO's loan program in 1999, with unclear results. Unfortunately, poor research design and poor data left the majority of the study inconclusive. Weakly significant results showed marginal income benefits and mixed employment impacts. Other evaluations of Opportunity International projects in Ghana and South Africa were far more positive, with loan recipients overwhelmingly reporting positive impacts on businesses, home welfare, and even social relations (Afrane 2003). Although not definitive, these findings suggest that WECDO, under its current ownership at least, provides loans that are beneficial to its recipients.

Output Distribution Methods

Although WEDCO is imperfectly need-based, these recipients are an appropriate target population. In the early years of the program, WEDCO distinguished itself from many other MFIs by focusing on women, on the very poor, and on people in rural areas. Since then, WEDCO has shifted the majority of its operations to urban areas and has increased the number of male beneficiaries, but the majority of loan recipients are still women, and WEDCO serves poorer populations than the average Kenyan MFI (Johnson et al. 2006, 49). With an average loan size of just $270 in 2008, WEDCO's distribution methods are fairly need-based although still clearly constrained by considerations of financial self-sufficiency (opportunity.net 2/11/10). WEDCO unequivocally reaches the poor, but its current model cannot reach populations in need.

Externalities

Externalities from WEDCO have been reduced thanks to the organization's stated "minimalist" approach (Maalu et al. 1999, 15). The studies of Opportunity International's microfinance projects in Ghana and South Africa found positive impacts on associational life and on health, indicating that both the credit itself, and the credit groups that recipients participated in, had positive externalities, and it is likely that WEDCO has had similar effects (Afrane 2003, 47).

Efficiency

Although the project has received millions of dollars of funding since its inception, its need for continued donations ended in 2006 when WEDCO reached self-sufficiency, with interest from outstanding loans (24% in 1999) covering operational costs (Maalu et al. 1999, 16; opportunity.net 2/12/10). As a result, the project's efficiency in terms of the cost to funders of running it is near perfect. This may be more a reflection of the project design than of the organization itself, but under Opportunity International, WEDCO has effectively pursued policies to reduce costs, including providing group-based loans that allow it to rely on "local knowledge of clients to help lower costs of screening and monitoring…" (Johnson et al. 2006, 44). In conjunction with the efficient project design, this has helped WEDCO to serve communities that commercial banks do not find financially viable.

Resources and Constraints

Building on these successes, Opportunity International, through WEDCO and its other microfinance projects in Kenya, hopes to reach one million children and adults by 2015 (opportunity.net 2/12/10). With a third of formal-sector employment provided by SMEs and millions of other unemployed Kenyans who are potential entrepreneurs, WEDCO has enormous potential for expansion (Meghana Ayyagari et al. 2007, 418). Given its current financial sustainability and the $165 million that Opportunity International controls to support it, this expansion is likely to occur (Opportunity International Annual Report, 17). One significant question,

however, is whether the organization will be able to reach rural populations despite its commitment to financial self-sufficiency. Given its needs-based distribution methods, its efficiency, and the limited evidence on output quality and externalities, this expansion would likely have a very positive impact on Kenyan poverty. There are millions of Kenyans in need of credit in order to escape poverty, and it is likely that WEDCO could efficiently reach them with a loan to help them do so.

GO Case Study: USAID's Kenya Business Development Services Program

USAID, like other agencies of the U.S. government, most commonly tries to influence Kenyan market conditions by working with the government to formulate economic policy. This is an area in which the U.S. government has considerable expertise, although there is enormous contention as to the results of these efforts. The case study program takes a different approach and is one of USAID's only efforts to promote the availability of business development services. This represents an interesting new sector for GOs, and (as opposed to policy-oriented programs) a good opportunity to test the model's predictions. For the most part, the program was as successful as expected (medium output quality, fairly need-based output distribution methods, positive externalities), but its efficiency was surprisingly high.

This efficiency, following WEDCO's, may be a result of USAID taking an even more private sector-driven approach than WEDCO with its Kenya BDS (Business Development Services) Program. Kenya BDS aimed to connect actors in Kenyan export markets in order to improve the incomes of small business owners.

According to the Request for Proposals,

> *The objective of Kenya BDS was to increase growth and incomes among rural [SMEs] through: 1) access to markets; and 2) access to skills and resources to compete in those markets (EMG 2008, 1).*

Kenya BDS' primary implementing contractor, Emerging Markets Group (EMG), identified two sub-sectors to focus on: Lake Victoria fisheries, and tree fruits horticulture. In a baseline survey, Snodgrass and Sebstad (2005) found that

> [b]roadly speaking, the baseline research shows that smallholders are part of the tree fruit value chain, but they occupy a low position within that chain. They are numerous and active producers, but their productivity is low and they sell much of their produce under unfavorable conditions. Income from tree fruits plays an important role as a source of household income, especially for the poorer farmers, but income from tree fruit and total household income are both very low in most cases. (Snodgrass and Sebstad 2005, 62)

This case study will focus on the tree fruits subsector.

In order to improve both the yield of the fruits that Kenyan farmers were growing and the price they were receiving from the sale of their produce, the KENYA BDS program helped those farmers develop relationships with sprayers, pruners, processors, and exporters, as well as among themselves. In this way, the program sought to improve the value chain[16] so that producers received a greater portion of the value of their crops, as well as to increase the overall production value of the subsector. This approach was also adopted so that the change would sustain itself after Kenya BDS' termination.

---

[16] The project design used a value chain analysis, which explores the various steps of production of a good and the contribution of each to the good's final value in order to allow the producer to maximize hir profits.

Output Quality, Output Distribution Methods, Externalities, and Efficiency

At the most basic level, the program was a success. Sales income increased 93% among participant avocado growers and 950% among participant passion fruit growers between 2005 and 2007 (Snodgrass and Sebstad 2008, 36). In the volatile world of commodity production, however, it is difficult to know whether this can be attributed to USAID's efforts. Given the magnitude of these changes and concurrent behavior of global avocado prices, the growth in income cannot be attributed solely to a change in market conditions (McGrath 2008). Incomes in the control group of avocado growers grew almost as much as the participants (83%), while incomes of the control passion fruit growers grew more (1050%) than those of participants (Snodgrass and Sebstad 2008, 36). Thus correct attribution requires a closer look at the program's results.

Kenya BDS succeeded unequivocally in bringing producers and other market actors together, linking farmers with 5 new exporters, 3 avocado oil processors, and 60 grafting and pruning service providers, among others, and facilitating the creation of over 500 producer groups (Snodgrass and Sebstad 2008, 25). These relationships, however, were plagued by mistrust, resulting in a number of producer groups leaving the program, disputes over payment, and exporters taking advantage of farmers (Macharia 2006). While USAID had expertise on horticulture, value chains and market linkages, a lack of local knowledge, presence, and connections may have impeded its ability to foster the emergence of positive relationships between these actors.

Regardless of these weaknesses, the Kenya BDS program clearly raised overall fruit production (in terms of the number of pieces grown) and quality (although there were declines in the number of trees cultivated per farmer and mixed results with respect to irrigation, fertilizer and spraying use)(Snodgrass and Sebstad 40). As one evaluator concluded, the growth in income was most likely partly due to agricultural extension, and partly due to improved market linkages that allowed the farmers to bypass middlemen (Macharia 2006, 10). Evidence of the intermediate impacts that the program intended corroborate this claim and indicate that USAID can be credited with a significant part of the increase in farmer incomes. It is likely, therefore, that the coincident growth in control group incomes was due simply to spillover effects, as Snodgrass and Sebstad (2008) suggest.

If this is indeed the case, it has very positive implications for the population reached by the program, and therefore the magnitude of its impact. There was a degree of bias in the selection of the participant famers, as they tended to cultivate more trees and be wealthier overall than the control but given the extent of spillover to the control groups, the project's impact has been more need-based than it would otherwise have been. In addition, impacts in all groups were greatest among women and the poorest participants, who saw larger growth in productivity and income. That being said, only 10% of the participants were women, and the target population excluded the neediest growers (there was a minimum cut-off for the number of trees), so few highly disadvantaged growers received these benefits.

As mentioned earlier, non-participants, including the very poor, did benefit

from the program indirectly. Beyond benefitting tree-fruit growers, the improvement of the value chain had other positive impacts, including creating jobs in spraying, pruning, and processing, and the downstream benefits of the increased wealth flowing into these communities. Kenya BDS also made an effort to promote environmental sustainability, requiring environmental impact plans for every new intervention and introducing new fruit varieties requiring fewer chemical sprays. The program did encourage fertilizer use, but efforts were made to reduce its impact.

Even without incorporating these positive externalities, the most impressive aspect of the Kenya BDS program has been its efficiency. Funded at $6 million, and reaching nearly 75,000 participants by its termination, Kenya BDS cost only about $80 per person (EMG 2008, ii). Meanwhile, participants witnessed income growth of about $170 in the avocado sector and over $4800 in the passion fruit sector (Snodgrass and Sebstad 2008, 15). These are very rough approximations and the program can only claim a portion of the credit, but they are nonetheless spectacular returns on investment. The unique private-sector orientation of the program may explain this impressive efficiency.

Optimizing the Impact of Kenya BDS: Resources and Constraints

Perhaps the greatest strength of the Kenya BDS program is how it has harnessed the work that Kenyan farmers were already doing cultivating tree fruits. According to a 2000 study, over 90% of Kenyan households grow fruits and

vegetable, but only 2% of farmers export their produce (Sebstad and Snodgrass 2005, 14)[17]. This is despite the significantly higher prices available in the large (albeit competitive) export market. Many of the major constraints to entering the export market are exactly those addressed by the Kenya BDS program, including "[l]ack of information and knowledge of the markets, limited access to inputs, limited smallholder access to business solutions and services a long and inefficient supply chain… [and] lack of trust among producers, brokers, and exporters" (Ibid. 32). There is thus an enormous opportunity for expansion of the program and, more importantly, a way of impacting the income-generating abilities of millions of Kenyans.

That being said, other constraints are not as easily surmountable. There is a serious dearth of knowledge capital, infrastructure, and market capacity, which cannot be alleviated by the Kenya BDS program. Snodgrass and Sebstad highlight in particular "[a] shortage of irrigation water in many areas," "a general shortage of skilled labor and qualified management staff," "[h]igh air freight rates and a need for more cargo capacity to London, Paris, and Frankfurt," and "[i]nadequate communications, power supply, and rural feeder roads" (Snodgrass and Sebstad 2005, 16). Some of these could change once tree fruit exporting reaches a critical size, and others could be changed through simple policy changes. Nevertheless, a major expansion of the Kenya BDS program faces significant obstacles.

---

[17] This study was conducted with USAID funding, highlighting a strength of the agency's large resources scope of work. USAID is uniquely able to both support in-depth research like this, and take action to address its findings.

MNC Case Study: Citibank Kenya's Lending Portfolio

The case of Citibank presents a different sort of impact. Citibank is the only American bank with a significant presence in Kenya, but there are several other foreign banks that have similar patterns of behavior. It should be noted that Citibank caters to more affluent clients than these other banks, but they all affect poverty primarily through provision of similar financial products, so Citibank is still a fairly representative case study (Central Bank of Kenya 2008, 54)[18]. With the exception of its few small corporate social responsibility programs, Citibank does not actively attempt to reduce Kenyan poverty. Its impact derives exclusively from its business activity. As for-profit activities, these should enjoy high efficiency and output quality, but be distributed commercially, as does appear to be true of Citibank.

Citibank Kenya is a subsidiary of Citigroup, a New York-based financial services giant. While the parent company is involved in a vast array of financial activities, Citibank Kenya focuses on corporate banking, offering corporate finance, asset management, and trade services from its branches in Nairobi and Mombasa. Citigroup has a gained a reputation for its commitment to microfinance and other pro-poor banking (The Economist 11/5/05), but while the Citibank Kenya affirms its mission to "improve the quality of life for children, families, and the neighbourhood where we all live and do business," the company's microfinance efforts have not

[18] As the other large foreign-owned bank in Kenya are primarily British and many of them therefore have much longer histories in Kenya, part of this discrepancy in clientele may be simply a factor of Citibank being a subsidiary of an American corporation.

taken off in Kenya. Citibank Kenya's impact on poverty stems from its commercial provision of financial services. The bank holds just under 5% of the market's assets at 47, 535,000 Ksh ($620,000) and has been an industry leader in efficiency and profitability (BSD 2008, 51). By helping to develop the financial services industry, Citibank has promoted domestic business and entrepreneurship, but whether this has translated into reducing poverty is less clear.

Output Quality

In one of its most publicized ventures, Citibank agreed in early 2010 to provide $21 million for the construction of an oil pipeline linking Nairobi with Western Kenya (Daily Nation 2/8/10). The project, valued at over $200 million, will significantly cut transportation costs and alleviate persistent petroleum shortages in the region (Daily Nation 1/25/10). In a country where capital, particularly large investments, can be difficult to procure, Citibank's presence is crucial for these sorts of commercial ventures. Most of the company's projects are smaller, but this clearly demonstrated Citibank's value to the economy. In a study of the Kenyan banking sector, Beck and Fuchs (2004) write,

> *Cross-country comparisons have shown the benefits of foreign bank ownership for developing countries while providing little evidence for adverse consequences on access to or cost of financial services "(Claessens and Janse, 2000, Clarke et al., 2003, 4)"…foreign banks usually bring with them better know-how and technical capacity, which then spills over to the rest of the banking system. They impose competitive pressure on domestic banks, increasing efficiency of financial intermediation. They provide more stability to the financial system, being able to draw on liquidity resources of their parent banks.* (Beck and Fuchs 2004, 4)

In accordance with this finding, Citibank has received positive reviews in Kenya, being voted the best-performing bank in the country in a 2006 survey by market intelligence (AllAfrica 6/13/06) and in a 2009 survey by Think Business (Daily Nation 5/28/09). For the most part, as noted in the case of Mobil Oil's philanthropic donations, financial outputs are interchangeable, so output quality is somewhat of a moot point. The evidence that financial services do, in fact, contribute to development however, and that Citibank is providing these services well, are evidence of high output quality.

Output Distribution Methods

Unfortunately, Citibank distributes these services in a highly commercial manner. In addition to the merits of foreign-owned banks noted earlier, Beck and Fuchs write, "Countries with better developed banking systems and capital markets enjoy higher growth rates; and it is the poorest segments of society that stand to gain most (Beck, Levine and Loayza, 2000; Beck, Demirgüç-Kunt and Levine, 2004)" (Beck and Fuchs 2004, 1). This seems a farfetched claim, given the lending portfolio of banks like Citibank. Of Citibank's customers, both corporate and private, 57.3% have accounts worth over $1300, compared to an industry-wide average of 9.8% (BSD 54). Beck and Fuchs argue that, *"…even in those cases where foreign banks have focused more narrowly on the top end of the market rather than providing financial services to small borrowers, they can force domestic banks to re-focus on the small borrower segments"* (Beck and Fuchs 2004, 4). This claim, however, is

difficult to substantiate. If Citibank's activities do support the poor, it is a positive externality, as the bank's output distribution methods are clearly commercial.

Efficiency

As the model predicts for the private sector, Citibank is highly efficient. With a return on assets of 7.0%, Citibank topped the standings of both domestic and foreign banks (BSD 52). Beck and Fuchs, furthermore, found much higher employee productivity among foreign banks, and as Citibank was one of only a handful of banks included in this category, it likely has similarly high productivity (Beck and Fuchs 2004, 8). Additionally, like WEDCO, Citibank's activities require no financial inputs; so cost efficiency in terms of inputs is perfect.

Resources and Constraints

Given the general positive nature of Citibank's impact, it seems that this impact could best be improved by expanding the bank's activities. As a subsidiary of a $1.1 trillion conglomerate, resources for expansion are abundant. Citibank's clientele are much wealthier than the general population, however, and extension of services to a poorer population is almost certainly less profitable. If the bank's current business were to grow, there would be some benefit to the poor indirectly. Even this growth, however, is impeded by Kenya's convoluted legal framework governing banking, which acts as a significant drain on profits (Beck and Fuchs 2004, 11). As a result, Citibank is unlikely to significantly expand the population it serves.

Conclusion

It is a safe assumption that the people who are best able to impact Kenyan poverty are poor Kenyans themselves. It is also clear, however, that there is a marked lack of necessary services, both financial and other, for Kenyans to run sufficiently profitable enterprises to allow them to escape poverty. The provision of these services is therefore essential to alleviating poverty.

The experience of Citibank shows that some of these services may be provided profitably, and notably, Kenya BDS focused on linking private sector actors, rather than providing services itself. However, given the commercially selected population that Citibank serves, there are likely limits to the services that can provided profitably. Microloans to the rural poor, for example, may never be profitable. WEDCO's failure to reach this neediest demographic as it has sought to reach financial sustainability illustrates this problem.

As a result, encouraging Kenyan micro-enterprise is best accomplished by a combination of non-profit (NGOs or government agencies) and for-profit actors. Summarized results of this chapter are presented in Fig. 4.1. Citibank shows the efficiency expected of it by the model, and better-than-expected output quality, indicating that corporations can be effective providers of these services when it is profitable. Additionally, working through private sector actors like Citibank requires no financial investment, as it is in their interest to provide these services.

Investment in the provision of other services is necessary as well, especially those directed at very poor and rural populations. For the most part, WEDCO

followed the model's predictions, with the exception of its output distribution methods, which were less need-based than would be expected. This was due to the organization's attempts to imitate private sector financial sustainability, and, while this is a common trend, it need not be common to all microfinance NGOs. With proper support, these organizations ought to provide what essentially amount to public goods.

Alternatively, these goods could be provided by USAID, particularly in light of its greater financial resources. USAID performed about as well as predicted in its administration of the Kenya BDS program, hampered by its characteristic sub-standard output quality due to poor understanding of local society. The innovativeness of the Kenya BDS program must be commended, however, and may be illustrative of a unique niche for the organization. It certainly seems that the facilitation of business relationships that USAID undertook is a worthwhile enterprise, but USAID may not be the best implementer. It must be noted that the program was implemented by the private consulting firm, EMG, so the struggle to facilitate these relationships may not be unique to USAID, but may instead be common to all foreign organizations. To this end, local organizations probably enjoy a comparative advantage when programs are heavily dependent on the creation of social capital.

Figure 4.1 – Results of Financial and Business Development Services Case Studies			
	USAID	**WEDCO**	**Citibank**
Output Quality			
Predicted	Medium	High	Medium
Actual	Medium	Probably High	High
Output Distribution Methods	Fairly need-based	Need-based	Commercial
Predicted			
Actual	Fairly need-based	Fairly need-based	Commercial
Externalities	Positive	Positive	Negative
Predicted	Positive	Probably positive	Probably positive
Actual			
Efficiency	Moderate	Moderate	High
Predicted	High	High	High
Actual			
Legal Constraints	High	Moderate	Low
Predicted	High	Low	Moderate
Actual			
Resources	Large	Small	Large
Predicted	Large	Small	Large
Actual			

Bibliography

Afrane, S. 2003. “Impact assessment of microfinance interventions in Ghana and South Africa.” *Journal of Microfinance* 4(1): 37–58.

Antoine, Malick. 2004. “BUSINESS DEVELOPMENT SERVICES, UNEMPLOYMENT AND THE KENYAN INFORMAL SECTOR.”.

Ayyagari, M., T. Beck, and A. Demirguc-Kunt. 2007. “Small and medium enterprises across the globe.” *Small Business Economics* 29(4): 415–434.

Bank Supervision Annual Report. 2008. Nairobi, Kenya: Central Bank of Kenya.

Beck, Thorsten, and Michael Fuchs. *Structural Issues in the Kenyan Financial System: Improving Competition and Access*. World Bank Publications.

Bonyo, Joseph. 2010. “Awards bode ill for Pipeline.” *Daily Nation*. Available at: http://www.nation.co.ke/magazines/smartcompany/-/1226/857962/-/r4hncgz/-/index.html [Accessed February 17, 2010].

Deadline: Kenya banks set for mergers. 2009. *Daily Nation*. Available at: http://www.nation.co.ke/business/news/-/1006/604200/-/ijk0lez/-/index.html [Accessed February 17, 2010].

Emerging Markets Group. 2008. *Final Report - Kenya Business Development Services Program*. Washington, DC: USAID.

FinAccess 2009. 2009. Nairobi, Kenya: FinAccess.

Giants and Minnows. 2005. *The Economist*.

Gikunju, Washington. 2009. "Citibank posts modest profits as conservative lending cuts earnings." *Business Daily*. Available at: http://www.businessdailyafrica.com/-/539552/639324/-/56yhdo/-/index.html [Accessed February 15, 2010].

Global Annual Report. 2008. Oak Brook, IL: Opportunity International.

Hospes, O., M. Musinga, and M. Ong'ayo. 2002. "An Evaluation of Micro-Finance Programmes in Kenya as Supported through the Dutch Co-Financing Programme, with a Focus on KWFT." *Study commissioned by the Steering Committee for the Evaluation of the Netherlands' Co-financing Programme*.

Johnson, S., M. Malkamaki, and K. Wanjau. 2006. "Tackling the'frontiers' of microfinance in Kenya: the role for decentralized services." *Small Enterprise Development* 17(3): 41–53.

Maalu, J. 1999. *Impact assessment of the WEDCO enterprise development project*. Institute for Development Studies, University of Nairobi.

Macharia, Mathew. 2006. *External Evaluation of Kenya BDS/EAGA Avocado Program in Kandara Division*. Nairobi, Kenya: USAID Kenya.

Miehlbradt, A. O, M. McVay, and J. Tanburn. 2005. "From BDS to making markets work for the poor." *Geneva, Switzerland: International Labour Organization*.

Mutua, J. M, and L. N Oyugi. 2005. *Access to financial services and poverty reduction in rural Kenya*. Namibian Economic Policy Research Unit.

Omino, G. 2005. "Regulation and supervision of microfinance institutions in Kenya." *C. B. o. Kenya, IRIS Center*.

Opportunity International - Kenya. *Opportunity International*. Available at: http://www.opportunity.net/Members/Implementing/Africa/opportunity_international_kenya/ [Accessed April 9, 2010].

Riley, Thyra A., and William F. Steel. 2003. *Voucher Program for Training and Business Development Services Kenya Micro and Small Enterprise Training and Technology Project*. ILO. Available at: http://www.ilo.org/public/english/employment/ent/papers/voucher1.htm [Accessed April 7, 2010].

Sambu, Zeddy. 2010. "Work on parallel fuel pipeline begins." *Business Daily*. Available at: http://www.businessdailyafrica.com/Company%20Industry/-/539550/854388/-/t40opgz/-/index.html [Accessed February 15, 2010].

Senelwa, Kennedy. 2010. "Four banks to fund pipeline." *Daily Nation*. Available at: http://www.nation.co.ke/magazines/smartcompany/-/1226/849138/-/r52yxkz/-/index.html [Accessed February 15, 2010].

Senelwa, Kennedy. 2009. "Kenya Pipeline doubles pumping." *Daily Nation*. Available at: http://www.nation.co.ke/business/news/-/1006/653400/-/ighxv3z/-/index.html [Accessed February 15, 2010].

Snodgrass, Don, and Jennefer Sebstad. 2005. *Assessing the Impact of Kenya BDS and Horticulture Development Center Projects in the Tre Fruit Value Chain in Kenya*. Washington, DC: USAID.

Snodgrass, Don, and Jennefer Sebstad. 2008. *IMPACTS OF THE KBDS AND KHDP PROJECTS IN THE TREE FRUIT VALUE CHAIN OF KENYA*. Washington, DC: USAID.

Wandera, Noel. 2006. "Kenya: Citibank Takes Company of the Year Prize." *AllAfrica*. Available at: http://allafrica.com/stories/200607100588.html [Accessed February 17, 2010].

CHAPTER V - HIV/AIDS

One of the most publicized impediments to Kenyan development, HIV/AIDS has ravaged the country psychologically, socially and economically for decades. Like many sub-Saharan countries, Kenya was hit early and hard by HIV/AIDS. By the millennium, prevalence exceeded 15% (Sanchez et al. 2008, 1) and the disease was claiming an estimated 120,000 lives per year (undata.org 2001). Additionally, AIDS has had a crippling effect on the rest of the population, and has been a major contributing factor to slow economic growth and persistent poverty.

One of the most obvious economic costs of the epidemic is its depletion of the labor supply, as sick workers are increasingly unable to contribute to the economy[19]. For the 56% of the population living on less than $1 per day, however, the greatest costs are likely the cost of care (Government of Kenya 2008, 72).

[19] Studies have found significant AIDS-related drains on employee productivity in multiple sectors (Rugalema et al. 1999) as well an enormous impact on company profits (as much as $720 per employee) (Fox et al. 2004). One government report writes, "The consequences of HIV/AIDS include increased absenteeism, decreased productivity, and reduced number of employees through death, with loss of accumulated skills and declining morale" (Government of Kenya 2008, 72).

Name-brand anti-retroviral treatment can cost over $700 per year (about twice what this portion of the population earns), and added to this are the costs of opportunistic infections, palliative care, and other medical costs (Ibid. 75). Compounding this situation, more than 1.6 million children have now been orphaned by the disease and must now be cared for by family members or charitable organizations. Other problems have been created by the strain on the resources of the health care system (Ibid. 75), decreases in personal saving and investment (Hancock et al. 1996), and a deterioration of the educational system (Carr-Hill et al. 2002). The net effect is an estimated 14.5% drain on GDP, in addition to the human impacts of the disease (Government of Kenya 2008, 76).

The epidemic has gained notoriety in part because of its complete incurability. While the introduction of anti-retroviral drugs in the 1990s has extended the lifespans of people living with AIDS (PLWA) considerably, it is always a terminal disease. As a result, a major focus of efforts to combat it has been on prevention. When combined with widespread testing and education, an approach known as the "ABCs"—abstinence, be faithful, condoms—has been shown to be effective in slowing the spread of HIV infection (Singh et al 2004). Proponents of a prevention-based strategy argue that this is the most cost-effective way to save lives.

By the same token, given the 33 million HIV-positive people worldwide, many others in the field have stressed the need to care for those already infected (UNAIDS

2008, 16). These efforts are broadly categorized as "care" or "treatment". Care for AIDS-positive patients includes treatment of the opportunistic infections (OIs) associated with the disease, nutritional support and emotional support. Treatment at this point refers almost exclusively to ART. In addition to these activities, there are also major research programs underway to try to develop a vaccine, cure or more effective barrier against transmission. Each of these approaches is entirely distinct in its objectives, which makes comparison difficult if not impossible. What they all share is the goal of saving lives. In the case of care and treatment, it is saving (albeit temporarily) the lives of people who are already infected; in the case of prevention, it is saving those who are not yet infected; and in the case of research, it is saving those who will not be infected for many years.

The task of calculating the lives saved by prevention or research accomplishments alone is incredibly difficult, to say nothing of the philosophical issues regarding the relative value of current and future lives—and these are not the subject of this chapter. This discussion will content itself with the efficacy of the case study organizations in carrying out whichever approach they choose. The wisdom of the approach that organizations choose, however, is important to keep in mind.

On the other hand, many people in the field argue that there is no need to choose, and that all four approaches are necessary. Kenya's HIV/AIDS activities have gained global recognition recently for having achieved the nearly unprecedented

feat of halving prevalence in less than a decade (NACC 2008), while putting 38% of the HIV-positive population on ART (UNAIDS 2008, 134)[20]. A host of actors have come together to achieve this remarkable accomplishment. All sorts of civil society organizations (church groups, savings groups, trade groups) have worked with local and foreign NGOs to spread awareness and provide the services that have reduced transmission rates. As the primary provider of health services, it is the Kenyan government, however, that has taken the most prominent role in this change (Obunga 2003, 19).

This is not particularly surprising, as the government is the legal guarantor of the health of its citizens. It is also important to note that the government's response has not been unproblematic, but it has generally been effective, and in recent years, it has made HIV/AIDS a national priority (Morah and Ihalainen 2009). This is very significant for Kenyans, and it is also highly significant for this study of U.S. actors. While it is common for U.S. organizations to run relatively independent health facilities and programs in Kenya, all health activities fall under the purview of the Kenyan government, and all programs must operate with at least some level of government support. The quality of the government-run healthcare system is therefore an important intervening variable in determining organizational impact in the healthcare sector. Achievements of U.S. organizations in Kenya must thus partly be credited to the Kenyan government and may not be replicable in other countries.

[20] While research is also ongoing, it does not generally take place in the developing world.

GO Case Study: PEPFAR's Comprehensive HIV/AIDS Program

U.S. GOs have devoted enormous effort to the HIV/AIDS epidemic, running large programs all over the world simultaneously addressing many different facets of the epidemic. Again, as with deforestation, this poses challenges for organizations that are expected to be inefficient and plagued by excessive bureaucracy and multiple objectives. In this case, however, the case study has been able to avoid this trap and run a fairly efficient program that is otherwise in-line with the predictions of the model.

After the government, the President's Emergency Plan for Aids Relief (PEPFAR) is one of the most important actors in the fight against HIV/AIDS. PEPFAR is an unprecedented effort to tackle the epidemic by providing billions of dollars for treatment, prevention and care that has largely consolidated U.S. government efforts under one organization. Originally funded at $15 billion over five years, the program was refunded in 2008 at $48 billion and expanded to include tuberculosis and malaria as well. While the program attracted controversy for mandating use of some funding for abstinence-only programs, a 2009 study found that PEPFAR had already saved more than 1 million lives (Bendavid and Bhattacharya). Kenya has been a primary beneficiary of this campaign, receiving more money than any other country in the world except South Africa (PEPFAR 2006). In 2006, the San Francisco Chronicle reported that PEPFAR's Kenya program was "widely considered the most successful and sophisticated" (AP/SF Chronicle 12/4/06).

Specifically, the program in Kenya provides funding to help roughly 600 government- and nonprofit-run hospitals provide HIV prevention, care, and treatment services, and technical assistance to improve the quality of care (Harding et al 2009, 14). PEPFAR's Kenya mission has focused on treating women and children, and on increasing the number of Kenyans receiving anti-retroviral treatment (ART). Given the size of the program, the potential for impact is unique. The question is whether the money has been used effectively.

PEPFAR's Impact: Output Quality, Output Distribution Methods, Externalities, and Efficiency

In contrast to some of the other projects addressed in this paper, much of PEPFAR's program in Kenya is fairly straightforward. This is not to say that effective administration is simple, but rather that success is easily measurable. The program set out to reach 169,260 people with ART by the end of 2008 and finished the year with 229,700 people on treatment, a clear success. While there are aspects of the administration of ART that are variable (particularly successful education and monitoring of their consistent and proper use), the medications themselves are fairly standard, and therefore output quality for this intervention does not vary much. An external evaluation of the health centers providing this treatment found widespread shortages of a variety of pharmaceuticals, including antiretrovirals (ARVs) and medicines to treat the opportunistic infections associated with AIDS

(Harding et al. 2009, 57). Given the program's targets, however, these stockouts can be seen as an indicator of its success, as more patients sought services than were expected.

Success is harder to measure in other areas, such as counseling, home-based care, and various outreach efforts. In 2008, for example, 540,000 individuals received care and support thanks to PEPFAR, falling short of the target 697,661, but at least as important as these numbers was the quality of this care. In focus groups, some patients mentioned that time with health center staff was limited and that staff at other facilities were more caring (Harding et al. 2009, 65). Additionally, depending on the type of facility, volunteers made up significant portions or even majorities of the staff, and paid staff complained of a lack of training among health workers (Ibid. 30). Seeing as none of these health centers were run by PEPFAR, the program cannot be held responsible for these weaknesses, but if the quality of services like counseling, care and outreach is poor and therefore provides little value to its recipients, the magnitude of these interventions is irrelevant.

Assuming that all of these services are at least somewhat beneficial despite their shortcomings, the question is whether they have been reaching the population that needs them. It seems unlikely that people who are HIV-negative would seek these services, so more specifically, it is important to determine if the services have been benefiting those who would be unable to afford them otherwise. The PEPFAR program specifically targets women and children—two of these groups. This focus

has resulted in 63% female participation—almost exactly reflecting the 62% of the HIV-positive population that is female (Ibid. 67)—and nearly 20% youth participation (Ibid. 24). While these vulnerable populations have not been reached more extensively than men, they are clearly beneficiaries. Additionally, PEPFAR hospitals were found, as a rule, to offer other HIV/AIDS-related services free of charge (Ibid. 67) and service fees that did exist were frequently waived for recipients who were unable to pay for them.

Unfortunately, even when the U.S. government has funded HIV/AIDS prevention, care and treatment activities, it has still strained the Kenyan healthcare system. The staffing and drug shortages mentioned earlier were due in part to the storage space and staff time being redirected to PEPFAR activities (Obunga 2003, 20). Additionally, PEPFAR has forced other changes in the healthcare system due to political stipulations in the legislation and by its administrators.

The most prominent of these has been the Mexico City Policy (also known as the "global gag rule", which prohibits federal funding from supporting organizations that promote abortion. As a result of this policy position, a third of all PEPFAR's prevention activities in Kenya in 2006 supported abstinence-only educational programs (PEPFAR 2006 OP, 58). This has had spillover effects to both the attitudes of the population being educated and the local medical providers, and eventually, to the quality of care. An independent team found that the policy "significantly reduced the availability of reproductive and general health care in populations that

need it the most" (Hoodboy, Flahery and Higgins 2006, 116). Considering the scientific consensus about the ineffectiveness of abstinence-only programs, this must be seen as another example of reduced program efficacy due to multiple objectives of U.S. government agencies. It should also be noted that the program's emphasis on training likely has had positive externalities on the quality of care in the program facilities more generally, but this may not make up for the program's negative externalities.

As there is no argument that ART and other services must be provided to Kenya's AIDS-positive population (although there is some argument about its prioritization), the primary question about the PEPFAR program is whether PEPFAR has been implementing the program effectively. The previous paragraphs have established that PEPFAR is providing beneficial services to people who need them without significantly harming the community, so what remains is whether PEPFAR has made good use of the funds available, or whether another implementer could more efficiently use them. The program boasts less than 5% of its budget spent on management and staffing costs; but an additional $12 million (5%) was spent on Congressionally-mandated oversight (PEPFAR FY 06, 65). While this oversight has been important in ensuring quality control it has been a significant drain on program efficiency. On the other hand, providing ART cost the program $150 per person, which, while high in comparison to Kenyan income, is much less than the commercially-available treatment, and was only made possible by PEPFAR's enormous purchasing power (Ibid.).

The primary argument against a large-scale treatment campaign for people living with AIDS in sub-Saharan Africa has always been one of feasibility. Given the enormous population in need of these drugs, it seemed impossible to reach any sizable portion without diverting funds away from addressing other diseases and from the prevention of the further spread of HIV. PEPFAR has defied these doubts both by introducing a massive influx of new money and by incorporating prevention and care activities, as well tuberculosis treatment, into its program. Although PEPFAR is only seven years old, it had already surpassed all bilateral and multilateral donors as the largest funder of HIV/AIDS activities in the world by 2006. Although the program has some weaknesses in efficiency and the strains it places on host country healthcare systems, the $25 billion it has disbursed since its inception has accomplished what has appeared impossible for millions of Africans (state.gov 4/3/10). Given a ten-fold expansion, maybe PEPFAR could reach nearly the entire population with ART, as well as provide prevention and care services[21].

One major constraint, though, is the quality of local health systems. The relative success of the program in Kenya in comparison to other target countries is in part due to the high quality of the Kenyan healthcare system. Thus, while the program could theoretically be expanded to reach nearly all Kenyans in need, in reality it is more likely to expand first to other countries with high HIV incidences

[21] Currently 3 million people, or roughly 10% of the HIV-positive population in resource-poor countries, is on ART. It is likely that reaching the rest of the population would be more expensive, as they are likely not covered now in part because of the difficulty of doing so (UNAIDS 2008, 130).

and less functional healthcare systems, impeding the associated expansion of its impact.

NGO Case Study: FHI's IMPACT Kenya Comprehensive HIV/AIDS Program

Given the massive influx of funding for HIV/AIDS programming from PEPFAR and USAID, it is very difficult to find a U.S. NGO in the field in Kenya that does not receive U.S. government support. This makes understanding the independent impact of NGOs on the epidemic hard to measure. However, as this is the reality for nearly the entire sector, it is useful to try to understand the impact of USAID-funded NGO projects, and what part of this impact can be ascribed to the NGOs and what cannot. Family Health International (FHI) is one such NGO that has been at the forefront of the fight against HIV/AIDS in Kenya for the last decade. FHI's program is also fairly comprehensive, incorporating all of the most common approaches to combating the disease. Given USAID's influence, FHI should run a fairly effective program like other NGOs, but with slightly lower output quality and output distribution methods, as seems to be the case.

Starting in 1999, FHI has run the Implementing AIDS Prevention and Care (IMPACT) Project, receiving $52 million to conduct a vast array of HIV/AIDS prevention, care, treatment and research in Kenya (Omuondo 2007, 2). This comprehensive program was USAID's largest response to HIV/AIDS and has been implemented in more than 50 countries (fhi.org 3/16/10). The project's primary

activities have been "strategic information; improving knowledge and practice of preventive behaviors; treatment, care, and support; and support for a national and district response" (Omuondo 2007, 4).

Beginning with what FHI calls a "behavioral surveillance survey", IMPACT conducted research to indentify high-risk opportunities and behaviors, then initiated a large outreach campaign targeting the focus groups—salaried workers, female sex workers, women, and youth—to encourage them to change these practices. These efforts were coupled with the launch of a massive voluntary counseling and testing (VCT) program facilitated by IMPACT, but largely run through government hospitals. IMPACT also set up programs to provide ART, palliative care, and treatment of opportunistic infections in government hospitals, and supplied technical assistance to the government in its development of a national plan to combat AIDS, among other activities. As a general rule, the program was carried out entirely by FHI staff, its subcontractors, and local partner organizations, although FHI staff met regularly with USAID personnel and all high-level strategic decisions had to be endorsed by USAID (Ibid. 35). As USAID operates in many ways similarly to the NGOs it funds, this did not radically change the program's outcome, but USAID's influences can be seen in some of the ways it was implemented.

IMPACT Kenya's Impact: Output Quality, Output Distribution Methods, Externalities, and Efficiency

The emphasis of IMPACT on what is called behavior change communication (BCC) rests upon an assumption in the field that this sort of outreach is an effective, highly cost-efficient way of slowing the spread of a disease. Unfortunately, the success of this approach is more difficult to predict or measure than other HIV/AIDS interventions.

In response to this challenge, an external study was conducted of female sex workers in Mombasa to test for changes resulting from participation in the IMPACT program. Four focuses of outreach to women had been on condom use, HIV knowledge, testing, and the number of sexual partners they had. The study found large increases in consistent condom use (from 28.8% to 70.3%) and knowledge of HIV status (from 5.2% to 40.2%), but their knowledge of the disease actually decreased and the average number of sexual partners rose significantly. Part of the cause of the greater number of sexual partners may be a result of an increased reliance on sex work for income due to economic pressures (which the study also showed), but there was nevertheless a failure to reach program objectives (Luchters et al. 2008, 143).

The program was more successful in other areas—helping to greatly increase the amount of blood collected by Kenyan blood banks, while simultaneously decreasing the HIV prevalence of the blood supply from 20% to 3.2% (Omuondo

2007, 18); and yet other activities were more standardized (provision of ART and condoms etc.) and can be assumed to have helped save lives.

In particular, the program's target populations ensured that the people whose lives were saved were those who might have had difficulty affording and getting access to things like ART and condoms. Over the lifetime of the program, IMPACT activities consistently reached women more than men and a large number of children (Ibid.). There were some barriers to access by the poor, including fees (usually about one dollar) for counseling and testing at centers supported solely by IMPACT, but the program generally worked to provide most services free of cost (Wambugu et al. 2007, 13).

As with PEPFAR's programs (which were coordinated with, and followed many of the same approaches as IMPACT), expanding the services offered by the existing healthcare system strained both staffing and supplies. Given its comprehensive approach, however, IMPACT made efforts to balance this out, restocking clinics when necessary, providing some support to the Kenya Medical Training College, and conducting trainings of its own (Omuondo 2007, 23).

Measuring the efficiency of IMPACT is difficult because of a lack of detailed financial data. The program was funded at $52 million and was able to reach millions of Kenyans (4.6 million received education; 470,000 received counseling and testing; 15,000 received ART, etc.) (Omuondo 2007, 36). The cost clearly was not exorbitant, but comparison is difficult. An evaluation of the IMPACT program in

Madagascar (also implemented by FHI) found high cost-efficiency, with investments of as little as $1.25 reducing STI prevalence among sex workers by half (Population Council 2002, 2). Evaluators of the Kenya program, however, found inefficiency in the program's outreach efforts; so overall efficiency is likely moderate (Mwarogo 2007).

Possibilities for Expansion of IMPACT – Resources and Constraints

There is no question that IMPACT is benefitting HIV-positive Kenyans and helping them and their relatives to escape poverty; the question is how these benefits can be expanded. To some extent, there are jurisdictional constraints to implementing the project more widely, as activities that are already being undertaken by other aid agencies or the Kenyan government cannot be taken over by FHI. That being said, there is still a huge portion of the population in need of IMPACT's services, so there is still significant room for expansion. Additionally, being funded by USAID means that the only real financial constraint is the USAID budget (which is massive in comparison to the budget for IMPACT). The possibilities for expansion are therefore large.

MNC Case Study: General Motors East Africa's Workplace HIV/AIDS Program

For over a billion people[22], the profundity of the HIV/AIDS epidemic has been brought home by a 2003 documentary entitled *A Closer Walk* (acloserwalk.org). While the film has had many collaborators and funders, it could not have reached the audience it has without the significant financial support of General Motors Corporation (GM). This partnership is only part of a larger commitment General Motors has made to combat HIV/AIDS as a human rights issue, which has also manifested through a workplace HIV/AIDS program. GM's commitment to the issue sets it somewhat apart from most U.S. MNCs, which generally have had little or no response to the epidemic (Davis and Anderson, 2008). That being said, charitable giving and workplace testing and education programs are the most common corporate responses to the epidemic, so GM is a representative case study from the subset of responsive corporations. As such it is expected by the model to run an efficient high quality program for its workers, but with little regard for the wider community.

General Motors is a $150 billion dollar automaker with a presence in 140 countries and 204,000 employees (gm.com 4/6/10). As part of its commitment to give back to communities, GM has focused on stemming the spread of HIV/AIDS. The primary intervention in pursuit of this goal that the company has initiated in

---

[22] It is unclear whether this refers to individuals, or individual viewings. Given the ambiguity, the latter should be assumed.

Kenya is its workplace HIV/AIDS program. In accordance with the model's predictions, the program is well-run, but has a limited impact on poverty more broadly and does not compensate for the company's negative externalities.

The workplace program worldwide includes HIV/AIDS education, VCT, and treatment, as well as a number of policies to ensure confidentiality and fair treatment for HIV-positive employees. In a study of GM's program in Thailand, all employees received education about the disease within the first year, and by the end of the second, 15% of employees in the country had accessed VCT. In addition, at least 1,000 condoms were distributed, 2,000 family members were reached with education, and several charitable causes were supported (an orphanage, an HIV/AIDS hotline, etc.) (WEF 2004, 4). There is no data on the quality of the education or counseling, but the fact that employees took advantage of the counseling and testing suggests the education may have been somewhat effective.

General Motors' program operates under the auspices of a broader corporate social responsibility program. As such, efforts to protect the company's employees from the debilitating effects of HIV/AIDS both make good business sense (avoiding loss of employees or employee productivity, reducing healthcare costs, etc.) and are in line with a moral imperative to care for employees. From a social justice standpoint, however, this focus is less sensible. As salaried workers in the formal sector, GM's employees are far more likely to be able to purchase medical services commercially and also are probably better informed than the average

Kenyan. GM's focus on salaried workers, however, does reflect the higher risk of this group due to a greater ability to purchase commercial sex. Thus, while not economically need-based, this is an appropriate target group from a public health standpoint.

As noted earlier, the program is a wise business decision for GM in terms of labor costs. There is, however, an altruistic aspect that stems from the need to improve a poor corporate image. General Motors is not known for environmental disasters, child labor or human rights abuses like some other American giants, but it has not been the best corporate citizen in Kenya. As Kehl (2009) writes,

> *General motors has been able to extract substantial direct gains in the form of large profits and renewable tax holidays from the Kenyan government. It has also been able to make Kenya absorb many of the negative externalities of its manufacturing operations, such as environmental pollution* (49).

By depriving the Kenyan government of tax revenue, while imposing added costs upon it, GM has ultimately increased the tax burden of the average Kenyan. At some point, the Kenyan government made the decision that GM was a desired investor, so it is likely that GM was perceived as contributing net value to the Kenyan economy; but the company's negative externalities must be weighed against any such benefits, as well as those resulting from the workplace HIV/AIDS program.

The redeeming aspect of GM's program ought to be the resources that it has brought to the table. Although the company has been struggling in recent years, the company still earned nearly $150 billion in revenue in 2009, and was fairly efficient in spending this money (the Thai workplace HIV/AIDS program only cost GM $8 per

employee in 2003) (WEF 2004, 2). On the other hand, these expenditures were paltry for the company and left enormous room for expansion. Whether or not HIV/AIDS programs would continue to be effective if GM sought to broaden its impact outside its workforce, a large growth in expenditure would be necessary if the company actually sought to be a comprehensively responsible corporate citizen in Kenya.

Conclusion

Perhaps the most important conclusion that can be drawn from the experiences of these three organizations is that through the collaboration of many different actors, complex problems like the AIDS epidemic can be effectively addressed. Without the unprecedented financial support of PEPFAR, the sheer magnitude of the task would have precluded meaningful progress; without the effective administration of NGOs, both FHI and those contracted by PEPFAR, this campaign could not have been as effectively managed as it has been; and without a functional government-run healthcare system, no foreign actors would have been able to operate in Kenya. General Motors' effort has been commendable, and reflects a broader positive trend towards corporate sustainability, but ultimately may be insignificant compared to its other impacts on Kenyan poverty. In contrast to the several thousand employees reached by GM's program, the workplace

education component of IMPACT has reached 125 employers with a combined workforce of over 140,000 (Omuondo 2007, 10). While its current small size is not alone a reason to discount GM's program as part of the solution, the minute segment of the workforce employed by foreign companies means that this sort of program, even if expanded and replicated, would make a difference in the lives of few Kenyans. Corporations thus do not hold much promise as important potential service providers in combating HIV/AIDS.

General Motors' support of *A Closer Walk* does, however, highlight the enormous financial resources available to corporations and consequent capacity for philanthropic impact. Additionally, the negative externalities of GM's presence (environmental, fiscal etc.), demonstrate the capacity for a change of impact by eliminating or mitigating harmful impacts. They also illustrate the challenge of examining poverty alleviation efforts by sector, as organizations discussed in one context may have unintended impacts on another determinant of poverty[23].

For the most part, GM's performance accords with the predictions of the model for corporations (full results in Fig. 5.1), the one notable exception being the quasi-altruistic nature of the workplace HIV/AIDS program, which has distributed services in a less commercial manner than is typical of corporations. However,

---

[23] Although GM's impacts on the Kenyan budget or local ecosystems may seem irrelevant or only tangentially related to HIV/AIDS, they must be mentioned in order to account for these negative externalities that originate in other sectors. The Kenya BDS program, for example is very careful to avoid unintended negative impacts on farmers' incomes, but it may not take into account how the transportation networks needed for exporting fruit contribute to the transmission of HIV.

although the program has been as efficient as expected, it did not result in a large positive impact because GM was not selling its services and therefore has no incentive to expand those services beyond its workforce. Given the poverty of many Kenyans, these are services that cannot be sold profitably, and therefore corporate efficiency is not likely to be a solution to the epidemic.

Instead, these services must be provided with the support of NGOs and U.S. government agencies. This may be a general rule in the provision of human capital services, as they are public goods that cannot be provided profitably. Human capital causes of poverty must be solved primarily by domestic actors, but if this assumption holds, then NGOs and government agencies must be relied on to make an American contribution to this effort. Both FHI and PEPFAR generally fit the model's predictions for NGOs and government agencies, respectively, but the greater resources of government agencies stood out in this case. While NGOs may still be the preferred implementer, particularly in view of the political corruptions of U.S. government programs such as the Mexico City Policy, the reality is that the field is dominated by U.S. government programs. As such, financial support of NGOs by individuals will not result in the change of impact needed in order to turn the tide on challenges like the AIDS epidemic. The greatest potential for change therefore lies in eliminating political stipulations and increasing funding for government programs (which, as likely as not, will be implemented by NGOs).

Figure 5.1 – Results of the HIV/AIDS Case Studies

	PEPFAR	**FHI**	**GM East Africa**
Output Quality	Medium	High	Medium

Predicted	Medium	High	
Actual	Medium	Probably High	-
Output Distribution Methods Predicted	Fairly need-based	Need-based	Commercial
Actual	Fairly need-based	Fairly need-based	Commercial, although appropriate
Externalities Predicted	Positive	Positive	Negative
Actual	Neutral	Probably positive	Negative
Efficiency Predicted	Moderate	Moderate	High
Actual	Moderate	Moderate	High
Legal Constraints Predicted	High	Moderate	Low
Actual	Moderate	Low	Moderate
Resources Predicted	Large	Small	Large
Actual	Large	Large	Large

Bibliography

AIDS in Kenya: Trends, Interventions, and Impact. 2008. Nairobi, Kenya: Government of Kenya.

Aloo-Obunga, Colette. 2003. *Country Analysis of Family Planning and HIV/AIDS*. Washington, DC: Policy Project.

Argo, A. "THE ROLE OF NGOs IN HUMAN CAPITAL DEVELOPMENT: THE CASE OF BESO II PROJECT IN PROMOTING PRIMARY EDUCATION IN SIDAMA ZONE, SNNPRS.".

Bendavid, E., and J. Bhattacharya. 2009. "The President's Emergency Plan for AIDS Relief in Africa: an evaluation of outcomes." *Annals of internal medicine* 150(10): 688.

Carr-Hill, R. A et al. 2002. *The impact of HIV/AIDS on education and institutionalizing preventive education*. International Institute for Educational Planning.

FHI - IMPACT Project. *FHI.org*. Available at: http://www.fhi.org/en/HIVAIDS/Projects/res_IMPACT+main+page.htm [Accessed April 5, 2010].

FISCAL YEAR 2006: OPERATIONAL PLAN - April 2006 Update. 2006. Washington, DC: PEPFAR.

Fox, M. P et al. 2004. "The impact of HIV/AIDS on labour productivity in Kenya." *Tropical Medicine and International Health* 9(3): 318–324.

GLOBAL HEALTH INITIATIVE - PRIVATE SECTOR INTERVENTION CASE EXAMPLE. 2004. Davos, Switzerland: World Economic Forum.

Hancock, J. et al. 1996. “The macroeconomic impact of HIV/AIDS in Kenya..” In *Int Conf AIDS, Jul*, , p. 7–12.

Harding, Richard et al. 2009. *PEPFAR Public Health Evaluation - Care and Support*. Washington, DC: USAID.

Hoodhoy, M., M. S Flaherty, and T. E Higgins. 2005. “Exporting Despair: The Human Rights Implications of US Restrictions on Foreign Health Care Funding in Kenya.” *Fordham International Law Journal* 29: 1.

Kehl, J. R. 2009. *Foreign Investment and Domestic Development: Multinationals and the State*. Boulder, CO: Lynne Rienner.

Kenya Considered "Most Successful" of PEPFAR Programs. 2006. *AP/San Francisco Chronicle*.

Luchters, S. et al. 2008. “Impact of five years of peer-mediated interventions on sexual behavior and sexually transmitted infections among female sex workers in Mombasa, Kenya.” *BMC public health* 8(1): 143.

Morah, E. U, and M. Ihalainen. 2009. “National AIDS commissions in Africa: performance and emerging challenges.” *Development Policy Review* 27(2): 185–214.

Office of the U.S. Global AIDS Coordinator. *US Department of State*. Available at: http://www.state.gov/s/gac/ [Accessed April 9, 2010].

Omuondo, Deryck. 2007. *Kenya Final Report September 1999–September 2007 for USAID’s Implementing AIDS Prevention and Care (IMPACT) Project*. Arlington, VA: Family Health International.

Report on the Global AIDS Epidemic. 2008. Geneva, Switzerland: UNAIDS.

Rugalema, G., S. Weigang, and J. Mbwika. 1999. “HIV/AIDS and the commercial agricultural sector of Kenya.” *Impact, Vulnerability, Susceptibility and Coping Strategies*.

Singh, S., J. E Darroch, and A. Bankole. 2004. “A, B and C in Uganda: the roles of abstinence, monogamy and condom use in HIV decline.” *Reproductive Health Matters* 12(23): 129–135.

Wambugu, Samuel et al. *Analysis of Data - HIV Voluntary Counseling and Testing in Kenya, 2001–05*.

CONCLUSION

In the second chapter, I introduced a model that was constructed like a mathematical equation, the idea being that if the impacts of U.S. organizations on developing world poverty were able to be quantified, this model would allow researchers to calculate a rough estimate of the value that each organization is providing and its potential for improvement. This analysis clearly has not approached a numerical estimation of impact, but it has provided several illustrations that explore the usefulness of the model and give some indications as to the relative impacts of the case study organizations. Drawing the results of the case studies together, some initial conclusions can be drawn about the core research question of this project: do NGOs, GOs, or MNCs have the greatest potential to facilitate a positive change in the overall impact of Americans on Kenyan poverty?

Findings Regarding Organizational Type as a Determinant of Behavior

Let us begin with what may be considered the null hypothesis: that charitable organizations, i.e., NGOs, represent the greatest potential for an improvement of the American impact on Kenyan poverty. Across the three case studies, there was considerable consistency in the four behavior-determining attributes of NGOs (fig. 6.2, with significant discrepancies in bold), with high output quality, somewhat need-based output distribution methods, and high efficiency. FHI's less positive externalities resulted both from the unique challenge of limited local capacity in the healthcare sector, and from the influence of USAID as its primary funder. This therefore does not seem to contradict the prediction of positive externalities for NGOs in general.

Figure 6.2 – Results of the NGO Case Studies

	RA	**WEDCO**	**FHI**	**Predicted**
Output Quality	High	Probably high	Probably high	High
Output Distribution Methods	Fairly need-based	Fairly need-based	Fairly need-based	Need-based
Externalities	Positive	Probably positive	**Neutral**	Positive
Efficiency	High	High	High	Moderate
Constraints	Low	Moderate	Low	Moderate
Resources	Small	Small	**Large**	Small

The notable trends that did defy the expectations of the model were the less need-based output distribution methods of all three organizations, and their high efficiency. The struggle to reach the poorest Kenyans reflects challenges on the

ground—these individuals often live in rural areas, and many do not have businesses that can benefit from some of the interventions of the Rainforest Alliance and WEDCO—but there continues to be cause for concern. NGOs were still the most progressive organizational type on this count, but if extreme poverty is to be eliminated, the poorest Kenyans must be reached.

Another contributing factor to this problem is the struggle for efficiency among NGOs. The assumptions of non-profit inefficiency that the model's prediction was based upon have prompted many NGOs to change the ways in which they operate, introducing different schemes to reduce costs and have recipients help fund programs. This effort can be seen in WEDCO's transition to financial self-sufficiency, which came at the cost of being unable to reach rural populations. Whatever the explanation, it appears that USAID's move to contracting out much of its work to NGOs in order to increase its cost-efficiency is well founded.

In light of these findings, it appears that NGOs are indeed the optimal implementers of poverty alleviation programs. Unfortunately, the potential for expansion of this impact is more limited than the alternatives. Constraints to expansion were lower than expected, but the small resources available to NGOs preclude significant expansion. FHI was able to wield extraordinary resources thanks to USAID funding, while the Rainforest Alliance and WEDCO both took advantage of private sector mechanisms in order the maximize their impacts. Generally, however,

the funding available to NGOs is somewhat finite, and it seems unlikely that a major expansion of private-contribution could be orchestrated (Kingma 1989).

One area that does hold some promise is government subcontracting. Considering that the U.S. spends a mere .19% of its GDP on foreign assistance, a significant expansion is possible (say, to reach the .7% target it has repeatedly committed to) and this would mean a large influx of new funding for NGOs (Tarnoff and Lawson 2009, 33). This is problematic, however, as the example of FHI illustrates. Such an expansion would have to be coupled with a reform of the U.S. foreign assistance program to remove political obstacles and stipulations.

The other potential source of expanded funding is from the private sector, which, as the case studies illustrate, has an enormous amount of disposable income. The obvious challenge is the sector's commercial output distribution methods, which focus even its "altruistic" efforts on regions that are important markets (as was the case with Mobil Oil). That being said, it can be hoped that the rise of the corporate social responsibility movement will encourage corporations to direct more of their resources to disadvantaged areas of the world. From this analysis, this seems to be the most positive possibility for corporate contribution to poverty alleviation.

Again, this largely accords with the model's predictions, as do the findings of the case studies. Given that Mobil's contribution was a simple monetary donation, and that data on the quality of GM's workplace HIV/AIDS program was limited, no conclusion can be drawn about corporate output quality. However, given the

commercial distribution methods and negative externalities, corporate outputs cannot generally be expected to benefit the poor anyway. The possible positivity of Citibank's externalities indicates the potential for businesses that are good corporate citizens to have a positive impact, and that is a notable deviation from the model's predictions. Given that the externalities discussed involved a generalized economic benefit and trickle-down effect, this would mitigate the commercial nature of Citibank's output distribution methods. The basis for assuming a trickle-down effect to the poorest Kenyans is tenuous, however, and the negative fiscal externalities found in the GM case study were not explored for Citibank.

Figure 6.2 – Results of the Corporation Case Studies

	Mobil	**Citi**	**GM**	**Predicted**
Output Quality	N/A	High	Unclear	Medium
Output Distribution Methods	Commercial	Commercial	Commercial	Commercial
Externalities	Neutral	**Probably positive**	Negative	Negative
Efficiency	High	High	High	High
Constraints	Low	Low	Low	Low
Resources	Large	Large	Large	Large

The negative attributes discussed here do, however, offer a significant opportunity for a change in the U.S. impact on poverty. If the $36.5 billion currently invested in Africa were spent in a manner that minimized negative externalities and ensured that benefits accrued to the poor on the continent, there could be an enormous change in impact without any additional money or programs (Ibarra and Koncz 2009, 32). This is not to say that these programs are not worthwhile. Despite

GM's negative externalities and the wealthier population the company reaches with its workplace HIV/AIDS program, it is still a beneficial endeavor. As noted before, however, these programs are probably better implemented by NGOs, and should not be used in place of responsible business practices.

With NGOs appearing to be the best candidates for an expansion of their already positive impact, and corporations appearing to be the best candidates for a reform of negative impacts, U.S. government agencies are left somewhere in the middle. Given the bureaucratic inefficiency and multiple objectives predicted by the model, this is unsurprising, and in fact, these do seem to have been the primary mechanisms of diminished positive impact. In both the FORREMS program and PEPFAR's Kenya mission, inefficiency was an impediment to optimal results, and in the case of FORREMS, excessive bureaucracy was specifically cited as one of the causes. The Kenya BDS program bucked this trend, demonstrating the potential for government agency efficiency by harnessing the power of the private sector, but it is likely that this is a function of program design rather than of the implementing organization.

Figure 6.3 – Results of Government Agency Case Studies

	USAID (FORREMS)	**USAID (BDS)**	**PEPFAR**	**Predicted**
Output Quality	**Low**	Medium	Medium	Medium
Output Distribution Methods	**Not need-based**	Fairly need-based	Fairly need-based	Fairly need-based
Externalities	**Neutral**	Positive	Positive	Fairly Positive
Efficiency	**Low**	**High**	Moderate	Moderate

Constraints	High	High	Moderate	Moderate
Resources	Large	Large	Large	Large

Beyond this deviation, results across the case studies were fairly consistent with one another, and with the predictions of the model (Fig. 6.3). The FORREMS program had both lower output quality and less need-based output distribution methods, but the reasons for this are not apparent and may simply be a product of poor program design. Considering that the Rainforest Alliance and Mobil Oil did not struggle in comparison to their peer organizations, it cannot be attributed to the difficulty of addressing deforestation. Given the nature of this analysis and the small number of case studies examined, the danger of misattributing program successes and failures to organizational type over issue area, program design, or other factors is large. The macroscopic trends in organizational behavior can still be valid, but these issues are worth considering.

Stepping back one step further, important insights can be drawn as to which organizational attributes are most important in determining impact. In line with the predictions of the model, there was significantly more variation in output distribution methods and generation of externalities among the organizational types than in output quality and efficiency. These latter two are still very important, but whereas corporate commercial output distribution methods and negative externalities are diametrically opposed to the need-based output distribution methods and positive externalities of NGOs (and, to a lesser extent, GOs), output

quality and efficiency only ranged from moderate (medium) to high. Output quality and efficiency are therefore less powerful explanatory variables for the discrepancy in impact between organizational types.

Differences Between Categories of Determinants of Poverty

Each of these determinants of poverty—deforestation, lack of access to financial and business development services, and HIV/AIDS—poses unique challenges, and each highlights different organizational strengths and weaknesses. Understanding these differences can help to pares apart the variance in organizational impact that can be attributed to the determinants of poverty, and that which is due to factors endogenous to the organizations.

The case studies in chapter three illustrated how deforestation is particularly challenging because it requires that Kenyans be motivated to act against their current economic interests and not cut down trees. Mobil saw some success here by relying on a local organization, the Green Belt Movement, to design and implement the program, while the Rainforest Alliance was able to manipulate the economic incentives for tea farmers so that preserving forests was in their interest. USAID attempted a similar approach in the FORREMS project, but its complicated program failed to create viable economic opportunities to motivate Kenyans not to deforest.

By leaving much of the incentive creation to private sector actors in the Kenya BDS program, USAID enjoyed considerably more success in the study in chapter four. It should be noted, however, that there are no incentives not to access financial and business development services. This alignment of interests has been one of the reasons why microfinance has become so popular in the last few decades and contributed to the positive results of all three case study organizations in this sector. Given the profusion of some of these services, the challenge to the case study organizations lay largely in reaching the poorest and most rural populations.

Chapter five demonstrated that this again is one of the primary challenges of addressing HIV/AIDS, as is motivating behavior change that is perceived as being against recipients' interests (discouraging commercial sex, encouraging condom use, etc.). Generally, however, as a medical problem, there is a scientific consensus on how HIV/AIDS should be addressed. All three organizations therefore achieved some success in combating the epidemic.

As all organizations in each sector experienced the same challenges but achieved different results, it is plausible that organizational type is an important determinant of organizational impact. This is supported by the substantial consistency in the organizational attributes studied across organizations of the same type, indicating that organizational type is a significant behavior-determining variable. Finally, in all of the case studies, a substantial portion of the variance in

results can be explained by output quality, output distribution methods, externalities, and efficiency. It therefore seems likely that these variances in the results achieved by organizations can be explained through this causal mechanism by organizational type. They are also highly dependent on intervening variables, like the determinant of poverty that is being addressed. The implication is not that impacts on poverty will be the same among all organizations of the same type, but that the model presented here provides a useful tool for analyzing organizational impact and predicting the types of programs that are suited to each type of organization.

Assuming the validity of the model and its results, despite their small sample size and qualitative nature, some prescriptions can now be made as to how the greatest change in the overall impact of Americans on Kenyan poverty can be achieved. As noted earlier, NGOs have a very positive impact on Kenyan poverty, but this cannot be expanded significantly through private donations. Citizen A from the introductory chapter is likely to provide supplemental vitamin A to many Kenyan children through her contribution to CARE International. However, even if many Americans did the same, there would still be insufficient funding to reach all poor Kenyan children with vitamin A and ensure they had access to schooling, clean water, and other development necessities. Even if half of Americans who currently donate to NGOs could be convinced to double their donations (a considerable feat), that would result in only a $4.5 billion increase in funding.

Conversely, the extension of PEPFAR alone amounts to an additional $6 billion per year in funding for development programming (whitehouse.gov 4/1/10). Thus Citizen B's approach of attempting to expand government funding would seem more effective. The concern, of course, is about how the money would be used. As this paper has shown, USAID programs generally are less effective than those conducted by NGOs, so the estimate must be revised downward somewhat. The case studies have also shown the extent to which USAID relies on NGOs for implementation, although FHI's Impact program illustrated how USAID funding can negatively impact NGO outcomes. If Citizen B were to not only lobby for an increase in foreign aid, but also for the depoliticization of that aid or for a greater reliance on NGOs, his impact could be even greater than it would appear at face value.

Finally, the potential of Citizen C's action seems virtually limitless. The case studies demonstrated both the vastness of the resources available to corporations, and the many ways in which they harm the local populations. As either a customer or shareholder, if Citizen C and other Americans lobbied for better business practices and more philanthropy in American multi-nationals, billions of dollars could be mobilized and constraints on developing countries alleviated (through greater tax revenue and fewer costs due to corporate externalities). The unknown element is the ease of achieving these changes.

There are examples throughout history of political participation changing foreign policy and consumer and shareholder advocacy changing corporate

behavior, but there is considerable debate about how and under what conditions this can occur. Further research into this question in conjunction with the research presented in this thesis would allow for a more fully informed decision as to the optimal approach to impacting Kenyan poverty. Considering how an individual's ability to influence corporations and the government is likely highly dependent on hir unique resources (e.g., personal connections, stock holdings, congressional district), to some extent the decision must reflect personal interpretations of each individual's ability to influence these organizations, and this is where it will be left in this paper.

One last issue that should be discussed, is whether Americans normatively should be attempting to impact Kenyan poverty at all. As Heron (2007) points out, the development enterprise is predicated on "deeply racialized, interrelated constructs of thought [that] have circulated from the era of empire, and today remain integral to the discursive production of bourgeois identity" (6). Development workers and policymakers undoubtedly mean well in trying to help the global poor, but there exists a serious danger of creating dependency and thereby robbing the poor of their ability to self-determine. Heron argues that development work as it exists is only possible given a "planetary consciousness" and sense of entitlement that permits Americans and other rich country workers and volunteers to choose to travel to developing countries uninvited by the local population to help the poor. I disagree with this characterization of development workers as "uninvited," given its negative connotation, but it is important to consider the broader historical narrative.

Kenya, for example, experienced tremendous physical, societal and economic violence as a British colony. For Western countries to create many of the conditions that underlie the current poverty, and then return in the role of Good Samaritan is inherently problematic.

That being said, as conditions stand today, many developing countries will struggle enormously to escape the poverty traps they are currently mired in. This is not an issue that can be resolved. I would argue, however, that there are ways that development work can be conducted that minimizes these issues of racism and paternalism, and neocolonialism. While I will not elaborate on what they are, one implication that is relevant to this work is that it may be less oppressive to focus on reducing the negative impacts of American actors rather than promoting proactive Western solutions. As such, this would privilege influencing corporate actors or government agencies over NGOs.

Deciding how to try to ameliorate the vast international inequities we are faced with as American citizens is fraught with difficult issues like this. This project has sought to provide some guidance in assessing the possibilities. I believe that the model developed here is a useful tool for this purpose and can serve as the basis for future examination of the issue. This study has significant practical and methodological limitations, however, and there is a large research agenda that is required in order to allow American citizens to make a fully informed decision. There are countless determinants of poverty within the categories of determinants

of poverty and in other categories. Social capital, infrastructure capital, and intellectual capital are just a few of the categories that could be explored. Additionally, the importance of the four impact determining factors may vary depending on the category of determinants of poverty (e.g., externalities are more important for natural capital), and research into this variance could help to hone the model. There are also other types of organizations that are not discussed here, including faith-based organizations, supranational organizations, and other types of government agencies. Finally, there are ways in which citizens can bypass organizations altogether, whether it is by volunteering, changing patterns of consumption, or engaging in micro-lending through international services like Kiva.com. All of these areas deserve thorough exploration, and, ideally, a more quantitative analysis. At the very least, this study has highlighted the possibility of making a difference in the lives of ordinary Kenyans as an American citizen, and the many ways that are often overlooked in trying to optimize that impact.

Bibliography

Budget FY 2009 - Department of State. *Office of Management and Budget*. Available at: http://www.whitehouse.gov/omb/rewrite/budget/fy2009/state.html [Accessed April 5, 2010].

Fergusson, Ian F., and Lenore M. Sek. 2003. *U.S. Trade and Investment Relationship with Sub- Saharan Africa: The African Growth and Opportunity Act and Beyond*. Available at: http://docs.google.com/viewer?a=v&q=cache:4wI90DH533oJ:https://www.policyarchive.org/bitstream/handle/10207/1631/RL31772_20030310.pdf%3Fsequence%3D1+total+us+investment+in+africa&hl=en&gl=us&pid=bl&srcid=ADGEESirzWIni64odUIrAIMAYxXuPAKLNhXIQNPek2Yqv7Tj41vOgNlrhcDpitdPw

QicHUNKEu1Zto2PSDvGiRC1dnL7z_hjRRmykz2GYtj-vnp194-dVzq_Ha743szNlcZuPEJ-_MfG&sig=AHIEtbS41OqYoMcjLTzWNlFijLbtkEMECw [Accessed April 3, 2010].

Heron, Barbara. 2007. *Desire for development*. Wilfrid Laurier Univ. Press.

Ibarra, M., and J. Koncz. 2009. "Direct Investment Positions for 2008: Country and Industry Detail." *Survey of Current Business* 88(9).

Kingma, B. R. 1989. "An accurate measurement of the crowd-out effect, income effect, and price effect for charitable contributions." *The journal of political economy* 97(5): 1197–1207.

Tarnoff, C., and M. L Lawson. 2009. "Foreign Aid: An Introduction to US Programs and Policy.".