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Bettering the Kenyan Economy:

Utilizing a Bottom-Up Approach

A Technical White Paper

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**Abstract**:

The objective of this white paper is to create a plan of action, or solution, which will better the Kenyan economy. This plan will utilize a bottom-up approach, specifically targeting microloans to build small businesses, and will focus on education. In addition to bettering the financial state of Kenya, this plan will also effectively minimize or eliminate wasteful spending, ideally eliminate the need for Kenyan foreign aid in the future, and support humanitarian principles of equality and opportunity by furthering the plight of women in a culture that devalues femininity and underappreciates female potential.

**Problem Statement**:

Our national approach to foreign aid for impoverished nations, such as Kenya, is outdated and ineffective. In fact, Dambiso Moyo, in her text “Dead Aid”, points out that in the last 50 years, more developed and wealthy nations have dumped over a trillion dollars in aid into impoverished African nations- to little or no (positive) effect, and perhaps even to negative effect (Summary: “Dead Aid”).

A sample of data from the last ten years found in the Congressional Budget and Appropriations Reports (Lawson 20, for example) from each year respectively indicates that Kenya is consistently ranked among the top ten recipients of American foreign aid (see below).

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| **Year** | **Amount (million)** | **Rank** |
| 2008 | 666.4 | 7 |
| 2009 | 864.4 |  |
| 2010 | 687.7 | 9 |
| 2011 | 798.4 | 6 |
| 2012 | 652 | 7 |
| 2013 | 592.8 | 6 |
| 2014 | 558.6 |  |
| 2015 | 560 | 8 |

In addition, it appears as though the U.S. is on track to continue this trend, as a request for 630 million has been approved for the 2016 fiscal year (Kenya Foreign Assistance). And yet, despite the incredible amount of money that is continually poured into the Kenyan economy, according to the 2013 UN Human Development Report it remains to be the fourth poorest nation in the world (Malik), and performs poorly in every standard measurement of a nation’s prosperity. In education, for example they have the fourth lowest literacy rate in all of Africa. In terms of health, for example, it has one of the world’s highest infant mortality rates *and* mother mortality ratios, and has recently declared a state of emergency in the face of an HIV epidemic: 16% of adults in Kenya are HIV positive- AIDs has become the number one killer in a nation still where tuberculosis and malaria still run rampant.

Kenya’s continued struggle, despite vast sums of economic aid, suggests that continued efforts to improve their economy and conditions must be reassessed. We propose that the inherent issue in our system of aid, and the reason for its ineffectiveness, lies in the top-down approach that has traditionally been implemented. Top-down here refers to a model of aid in which funds are given to an impoverished nation’s government in the hopes that they will then use it to better their country in terms of health, education, infrastructure, and so on. Too often though, this money doesn’t reach the targeted society, whether due to inefficiency, greed, or corruption. By altering our model of foreign aid after reassessing the effectiveness of top-down economics, we hope to better and more efficiently alleviate poverty in Kenya, and by extension perhaps affect our approach to aid in other struggling economies.

**Description of solution:**

In theory, the top-down approach appears to be an effective and reasonable method of foreign aid, but theory and practice are two very different things, and in its application it has repeatedly failed to create a long-term sustainable solution to poverty (Watson 1). The World Bank has moved away from the top down approach in recent years because it has not been working. The most obvious reasons are simple to understand. It is possible that many of the governments that the World Bank sends aid to are corrupt. This would lead to the aid not being distributed in the most efficient way. There seems to be no easy solution in regard to fixing the top-down approach. As a result, the World Bank has switched gears; and has been trying to send aid in other ways to specific communities—rather that higher ups in government (Faundez).

By inverting the Top-down approach, developmental economists have solved the problematic imbalance in aid distribution- a model aptly dubbed “bottom-up”. It is this bottom-up approach that we suggest be applied to aid efforts in Kenya. In the simplest terms, the bottom-up approach directs aid to the lowest rungs of society, literally putting money directly in the hands that need it most, instead of waiting and hoping that the money trickle down from the government and leadership.

Specifically, we would advise that the bottom-up approach implement micro-loans (or micro-finance) to strategically alleviate poverty. The idea of micro loaning is simpler than it might seem: they give the impoverished an opportunity to obtain small loans that come with a modest interest rate. Further, it is made possible as a result of the low amount of money that is loaned out. If someone happens to default on their loans, an investor need not be too upset; because the investor only lost a maximum of 200 dollars; rather than say, 200,000. These are not high risk investments; rather, they are low risk high reward.

In addition to targeting small business growth through micro loaning, our solution will target gender equality through education. By funneling aid into a basic education system, one will find not only bettered literacy rates, which in itself will contribute to a more stable economy, but in time may also increase gender equality, which is crucial to economic growth.

**How the Solution Works:**

*Small Business:*
The majority of people living in developing countries are either entrepreneurs, or small business owners (De Gobbi 1). However, getting poor people access to proper finance in developing nations is a difficult process, due in part to the fact that many of them cannot access modern banking institutions (De Gobbi 1), but also because even when they can, they are often intimidated by extremely high interest rates (Bond 1). As a result, this has discouraged the growth of small business, and therefore the economy, as the gap between the poor and the rich widens in some parts of Africa- creating some of the most extreme dissent in the developing world (Bond 1).

The amount of entrepreneurial potential in Africa is part of what makes the bottom-up model of aid so effective: first, it overcomes the loan-obstacles that they currently face; and second, the loans are likely to be injected directly into the national economy, as they are implemented through these small businesses.

*Gender Equality:*
The second main facet of this paper’s plan is the suggested implementation of foreign aid to fund education, specifically to encourage gender equality. This is because research strongly suggests that women lay at the foundation of twenty first century economic growth: that the rate at which gender equality raises, so too will economic development (Alexandra 1).

The cultural practices and ideologies in many developing sub-Saharan African nations, including Kenya, devalue women’s potential and value. As a result they are restricted to the home and placed in a situation where they can do very little to impact the economy. Such a cultural system needs to be addressed, as it literally inhibits half the population, half of an entire potential workforce, from contributing to the development of a stronger economy.

Though it is difficult to contemplate altering cultural ideology, it can be done. In fact, it has already been seen in Kenya: the disproportionally high maternal mortality ratio was a result of female gender mutilation, a deeply engrained cultural tradition, and one that was banned in 2010 (Godec) after years and year of prolonged educational efforts, supported in part by the US government. Though it still occurs, “the recent Kenya Demographic Health Survey for 2014 survey indicates FGM nationwide has fallen to 21 percent of the current population” (Godec), a new low in Kenyan history, and a remarkable sign of progress.

Alexandra Elsa, Janet Licumba, and James Dzator of the University of Newcastle, Australia, cite that the “Africa Partnership Forum (2007) estimates that restricted female participation in education and the paid workforce reduces Africa’s annual growth rate by 0.8%” (1). It seems clear that reaching gender equality is critical in any approach to alleviate poverty in such a region. Gender bias and discrimination can be deeply engrained cultural norms, but education is the key to defeating such ideological standards.

**Conclusion**

The bottom-up approach, just like the top-down method, is simply an attempt to create greater wealth for those who live in developing countries. In order to do so, research indicates that the most effective way in which one will decrease poverty is to increase economic growth itself (Alexandra 1). One of the objectives that this White paper aims to demonstrate is what it means to use one’s aid efficiently. I have stated that the poor need to be financed, and that a bottom-up approach implementing micro lending allows them to access to such financing: an otherwise difficult achievement, and one that encourages economic growth. Additionally, a bottom-up approach to alleviate poverty in Kenya must necessarily target gender equality and the defeat of cultural gender biases, and should do so through the funding of education, the likes of which we have already seen successful.

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