10 GLOBAL POVERTY: NEW ACTORS, NEW APPROACHES

BROOKINGS GLOBAL EXPERTS

- LAEL BRAINARD
- RAJ DESAI
- DAVID DE FERRANTI
- CAROL GRAHAM
- HOMI KHARAS
- SANTIAGO LEVY
- CAROLINE MOSER
- JOE O'KEEFE

The challenge of global poverty is more urgent than ever. More than half the world's population—nearly 3 billion people—lives on less than $2 per day. Nearly 30,000 children die each day—about 11 million per year—because they're too poor to survive. With such a toll, addressing poverty in new and more effective ways must be a priority for the global policy agenda. Fortunately, a variety of new actors are bringing new perspectives, new approaches and new energy to the challenge.

THE GLOBAL CONTEXT

For much of the late 20th century, combating global poverty was primarily the responsibility of bilateral official donors and multilateral development banks (MDBs) as well as the recipient governments themselves. Now there is growing awareness of the shortcomings of official agencies to confront the multifaceted challenges of poverty in the 21st century. Bilateral donors and MDBs principally deal with the governments of poor countries—which themselves can be a principal obstacle to poverty alleviation when corruption or ineptitude prevail. And because they are beholden to their respective constituencies, bilateral donors and the MDBs are politically hamstrung in their ability to exercise the discretion and selectivity that might produce more success stories. Moreover, private flows to developing countries—ranging from philanthropy to corporate partnerships to volunteer service—are now estimated at more than twice the level of public flows.

THE CHALLENGE

The world has recently witnessed a flourishing of new actors taking new approaches to combat global poverty and increasing competition among aid providers. Primarily drawn from the private sector, these visionary individuals are bringing the same spirit of leadership, innovation and initiative that is required for success in the global marketplace to development enterprises. With large financial and organizational resources behind them, these corporate leaders and enterprising individuals are infusing poverty alleviation ventures with creativity, greater flexibility and a general willingness to take large risks.

George Soros was at the vanguard of the foundation movement with his Open Society Institute and network of philanthropic organizations. And since its establishment in 2000, the Bill and Melinda Gates Foundation has committed more than $11 billion in grants to improve global public health, to global development and to increase worldwide access to technology in public libraries—often in partnership with other foundations, the private sector and official donors. And in a growing trend of homegrown philanthropists, Mo Ibrahim, after leading an extraordinarily successful telecommunications enterprise in Africa, is turning his attention and his resources to strengthening African public leadership—providing encouragement for African leaders to improve the welfare of their people while they are in office and to support democratic transitions when their terms are up. The Mo Ibrahim Prize for Achievement in African Leadership will recognize former African heads of state who have demonstrated exemplary governance with a $5 million prize over 10 years and $200,000 annually for life thereafter.

Many new philanthropists—having themselves created enormous value in the private sector—seek to harness business models as a force for alleviating poverty in the developing world. Known as "philanthropreneurs," individuals like eBay founder Pierre Omidyar and America Online cofounder Stephen Case are attempting to make a positive impact in development through for-profit ventures. Undeniably, the vast and multifaceted engine of private sector investing has an important role to play in the development process.

Private sector involvement in economic development is increasing the number of innovative financing vehicles available to entrepreneurs. From mobilizing capital for microfinance and small- and medium-sized enterprises (SMEs) to financing asset accumulation to stimulating entrepreneurship and the transfer of remittances across borders, individuals in the private sector are provoking many to rethink how we approach poverty alleviation.

Microcredit is now a burgeoning business and crowded field with many new actors and initiatives. Reliant upon microfinance loans ranging from as little as $50 to as much as $10,000, microenterprises have enabled millions of poor people worldwide to launch and expand small restaurants, crafts shops and market stands. The fact that microfinance pioneer Muhammad Yunus and his Grameen Bank received the 2006 Nobel Peace Prize will have significant implications for the field by drawing attention to the success of microfinance while more broadly validating the use of financial mechanisms to ease the suffering of poor people.

Firms that grow beyond this micro scale and cross into the realm of SMEs enter a danger zone where the relatively larger infusion of capital they need to thrive is either extremely difficult to obtain or comes at such a high cost that they are at risk of being crushed by daunting repayment obligations. This shortcoming presents a wealth of financing opportunities, because SMEs offer a promising channel for domestic employment, innovation and growth. Investment capital must be directed toward this sector with a tacit acceptance that investors will see lower returns due to high transaction costs. Whether these funds are channeled through long-term loans or equity is still a matter of experimentation.

Financing in support of asset accumulation is also in the vanguard of private sector engagements with development. On a theoretical level, asset accumulation creates a social safety net for those experiencing asset-based shocks by ensuring that they remain above the poverty threshold. By creating opportunities for poor people to accumulate and consolidate their assets in a sustainable way, new actors will stimulate upward mobility within the developing landscape.

RECOMMENDATIONS FOR ACTION

The challenge ahead for those engaged in poverty alleviation and development is how to maximize the returns these disparate players bring to the overarching goal of reducing global poverty. Harnessing the power of these new players and approaches outside the traditional official development assistance framework is still in many instances a matter of experimentation with little analysis of outcomes or best practice, varying degrees of accountability and too little attention to systematic scaling up. New contributors within the development landscape have provided the opportunity to rethink how we approach such endeavors. The task before us is to bring these new players together with the traditional players to pioneer promising new approaches, rigorously and openly evaluate their impact and collaborate to take successful ventures to scale.

WANT TO READ MORE?

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