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Rethinking Who Funds the War on Poverty

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Three years ago, when the United Nations (UN) declared a renewed initiative to end extreme poverty by 2030, the world felt like a vastly different place. Political leaders in the United States and Europe seemed firm in their commitment to international development aid. Smartphones and social networks still felt like new tools in movement-building, democratizing political conversations, and lifting the aspirations of people in the developing world. Concerned citizens from both rich and poor nations were hopeful about achieving the UN's goal.

But time is fickle, and many activists' optimism has darkened. Nativist movements in wealthy western countries have attacked international development aid. In the United States, the current administration has described aid as either a waste of money or a cudgel for bending other nations to its foreign policy agenda. The technologies that make it easier than ever to raise awareness of an issue have also frayed our attention. The social networks that connect people around the world can also isolate them in ideological echo chambers.

Now people are asking whether a multi-trillion dollar undertaking, like the end of extreme poverty, is as realistic as it seemed just a few years ago. I understand their concern, but I also remain optimistic. Technology's impact on globalization has raised the expectations of citizens of developing countries: the internet has put at their fingertips images of a better life, which once seemed a universe away. The traditional supply of development aid from wealthy countries may be under threat, but the need for aid in developing countries is more prescient than ever.

President Jim Yong Kim of the World Bank has said the world must meet these rising expectations in the next ten years, before disillusionment sets in. The international development community is now rethinking how aid is funded and delivered—a necessary adjustment since large grants from wealthy nations were never going to be adequate on their own.

Ending extreme poverty will require greater buy-in from the private sector, which will, in turn, require financial tools to make investments in emerging markets more attractive.

The private sector would help development projects by bringing better structure to deals and demanding clear returns, but it has typically avoided them as too risky. Rather than giving aid money as grants, governments and organizations like the World Bank are beginning to lend money as "first loss capital" to de-risk socially impactful projects and catalyze new rounds of investment. For example, WaterEquity has created a $50 million investment fund that will cover first losses of principals and return up to $5 million. The fund will provide capital to enterprises offering clean water to 4.6 million people in India, Indonesia, Cambodia, and the Philippines.

A boon in private investment will give the governments of developing countries flexibility to shift resources away from infrastructure to health and education projects that are investments in their own citizens' potential. These countries can no longer count on manufacturing jobs to lift their economies, and success in the 21st century will depend on providing their citizens with the resources to adapt to rapid changes. Indeed, for the first time, the World Bank has released this year a list ranking countries by their investments in "human capital"—a list that will help make countries more attractive for further investments. And now for the first time, social media has given these citizens the power to hold their leaders accountable to ensure the investments are actioned.

To be clear, private investment is not a silver bullet. Many vital projects, like mosquito nets and anti-retroviral drugs, will never make financial sense for the private sector unsubsidized. The key to a sustainable future is building a more stable model of development with both public and private funds. The stakes are high: if young people in developing countries cannot find jobs, then the pathways to economic freedom are quickly diminished. The tools we need are already in our hands, and now we need to measure governments by their investment in human capital and their willingness to support innovative finance for development.

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