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A Bold New Strategy for Smart Aid



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The Clinton Global Initiative's fifth birthday celebration this week may be a less glitzy affair than in previous years but it marks an amazing comeback. Last year the Obama administration actually thought about having it shut down as a price of Mrs. Clinton becoming Secretary of State, fearful that Bill's schmoozing of wealthy philanthropists could compromise his wife's role as America's top diplomat. Now, Obama is going to be topping the bill, outshining the A-list celebrities, heads of state and corporate titans who pack the hall for the annual "Philanthropy Oscars."

Yet the most important speech at the event may not be delivered by either the current or the former president but by Mrs. Clinton herself. She has said the State Department is going to forge new partnerships with philanthropists to achieve America's foreign policy goals (and has already started work on a new initiative around the Middle East peace process). Her speech is an opportunity to announce a radical new departure in the way America gives aid.

The aid business in crisis. The past year may have been tough for the world's richest countries, but it has been far harder for the poorest. Markets for exports have slumped as rich consumers have reined in their spending. Government budgets are creaking under the strain of the global recession and foreign aid is threatening to dry up. At the same time, the intellectual attack on aid has escalated, led by the author of "Dead Aid", the African economist, Dambisa Moyo.

The CGI has become the showcase for those who believe Moyo is wrong and that aid can be effective. The CGI is not about the old government-to-government aid model. Its members aim to deliver smart aid, based on partnerships between business, philanthropists, and social entrepreneurs. Mrs. Clinton's speech is the perfect opportunity to show that government is ready to work with the CGI crowd to rethink how it does aid.

One promising, for-profit solution to poverty is to take the model of microfinance -- one of the more resilient corners of banking during the financial crisis -- and extend it to improve education, health care, clean water and sanitation. Loan-based investments can be more sustainable than traditional aid or charity, because they tap the far larger sums available in the capital markets and are not dependent on the whims of political leaders or

budgetary wrangling. Some in government may be reluctant to give up their near monopoly on aid but it is long overdue.

A second opportunity is to get the public more involved in the aid business. New giving organizations such as Kiva have demonstrated how the public can play an effective role in allocating money to needy people. Government should be doing all it can to encourage this type of mass philanthrocapitalism that leverages the generosity of the American people and taps into the wisdom of crowds. It is time for government aid to be made more democratic by letting Kiva and others like it distribute some of the tax dollars.

Finally, Mrs. Clinton should seize the opportunity to turn the aid business on its head and pass control from the bureaucrats to the poor people themselves. Technology such as the internet and the mobile phone are now widespread in the developing world, so why not use these tools to give a greater voice in aid spending to the people the money is intended to help? Much aid has gone to waste because of a lack of feedback from the intended beneficiaries. Imagine how the best technology entrepreneurs could transform the aid business, in the same way that they have changed the media, by giving the poor a say in how the aid billions are spent.

The Obama Administration has made all the right noises about making government smarter by working more with the philanthrocapitalists. At home, the creation of a White House Office of Social Innovation was a welcome first move, yet it is still to be seen whether this will amount to much more than a new source of grant funding for the nonprofit sector. The big win is in remaking government through innovative partnerships with the private sector. Mrs Clinton has been mulling over what to do with USAID for nearly a year. What better opportunity than the CGI to announce a bold new strategy for smart aid?

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