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Statement before the

Senate Foreign Relations Subcommittee on State Department and USAID Management, International Organizations, and Bilateral International Development

"Public-Private Partnerships in Foreign Aid: Leveraging Taxpayer Dollars for Greater Impact and Relevance"

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July 12, 2016

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Chairman Perdue, Ranking Member Kaine, distinguished Members of the subcommittee, thank you for asking me to testify before you today. It is a privilege and an honor. As an expert on international development, I am speaking as someone with extensive experience on the central role of the private sector in development, and also having successfully created partnerships during my time in the Bush Administration at USAID. I have also had past roles in investment banking, commercial banking, corporate philanthropy, and with the World Bank Group. I currently hold an endowed chair at the Center for Strategic and International Studies and in that capacity, I have carried out four major studies related to the issues we are going to discuss today.

My central message to this committee is that rather than having the *largest wallet*, the United States and other aid donors need to understand that they are often the *most catalytic* wallet in the room.

I have three main points I want to communicate. First, it's not your grandparents developing world any more—most developing countries are richer, freer, healthier and more capable than 40 years ago because of globalization, an embrace of free (or freer) markets, better public policies, and a move towards democratic government and/or more "accountable" governance. Second, the way in which "we" (the West as official donors, academia, policymakers, and others) understand how development "happens" has also changed with a much greater role for the private sector. Third, the US Government and others are adapting to these changes but could go farther so that our limited (but important development assistance resources) could achieve greater impact and be focused on the things that developing countries want from us.

Let me start with the fact that the world has changed.

If you look at a whole series of measurements many of the countries that make up the developing world are richer, freer, healthier, and more capable of paying for their own health, education and other public goods. This is a great thing. These wealthier and freer countries can often help "burden share" on security and other global public goods, they trade with us, and engage with us on science and innovation and they often buy into a whole series of assumptions about how the world should work.

Of course there are still 20 or so so-called "Bottom Billion" countries. These Bottom Billion countries are fragile or failed states where terrorism is bred and pandemics accelerate. These countries will continue to require a mix of traditional foreign assistance and new solutions to achieve prosperity and security.

As a result of these dramatic changes, the U.S.'s economic engagement has changed radically in the last 50 years with the developing world. Most of our economic engagement and most of our allies in Europe and Japans' engagement with the developing world is foreign direct investment, global trade, and global capital market flows, not foreign aid. These flows dwarf the resources of all official development assistance. There are also large donations of philanthropy, remittances, and other forms of private charity emanating from the United States that when added up are also larger than US official development assistance.

This brings me to our first problem. The systems, procurement, human resources, incentives, and even our founding legislations were set up in an earlier, different era. The mindset from the Marshall Plan through the 1980s operated as if the United States or the World Bank or the IMF could centrally plan the "development" of these poorer countries. It was understandable as to why this was believed. In the 1960s over 70 percent of resources from the United States to developing countries came in the form of aid. This was true, in fact, of most wealthy countries during this period. Yet, the assumption remains that United States and other donors remain the "biggest wallet" in the room when, as I have explained above, this is far from the case.

As the role of aid diminishes in comparison to private capital, aid agencies can share financial risk, convene, beta-test, and put forward "glue money" for multi-stakeholder programs and ideas. Agencies like USAID offer world class and often unique capacity building, technical and program design expertise, and often underestimated convening power. Increasingly aid agencies work more closely with these other, larger forces.

Second, the way in which we understand that "development" happens has changed.

Let me take a moment to make an important distinction between "development" and US "development assistance". In my chapter in a recent e-book called "Choosing to Lead" I defined these two terms as:

> "[Development] assistance does not equal "development." The word development denotes domestically driven economic and social progress encompassing economic growth, political freedom, improvements in health, literacy, education, and other quality-of-life measures. Each society is responsible for its own development, more or less by definition. Development assistance, on the other hand, describes a facet of American foreign policy and that of other wealthier countries. But it is not the only related facet of U.S. policy. Some U.S. government assistance provides emergency humanitarian relief in the face of short-term crises, most often of natural origin (floods, earthquakes, and the like). The U.S. government and associated institutions like the International Red Cross are well regarded and admired for their capabilities as a humanitarian aid provider. Longer-term "development assistance" often takes many years to affect systemic problems, if it can do so at all. It overlaps with the U.S. capacity to undertake humanitarian crisis triage, but it has different methods and aims."

Let's consider "development" and how it happens. A series of international agreements that form the basic operating system for developing countries and aid donors have traced this shift. These agreements are divided into three general categories and try to answer three questions. The first question is "What kind of societies do we want?" This question has been first addressed by the Millennium Development Goals (MDGs) and now by the Sustainable Development Goals (SDGs). The next question considers "How will we pay for development?" This question has been sought to be answered by a series of conferences on Financing for Development organized by the United Nations. In shorthand, these are known as "Monterrey" (2002), "Doha," (2008), and "Addis Ababa" (2015).

The final question is "How does development actually happen?" A series of meetings called the High Level Forums on Aid Effectiveness organized by the Organization for Economic Co-Operation and Development have tried to answer this final question. In shorthand, these are known as "Paris," (2005) "Accra," (2008) and "Busan" (2011). Busan announced a new "Global Partnership for Effective Development Co-operation," which seeks to monitor the implementation of these agreements around improved aid and development effectiveness.

These three streams of agreements have all been moving towards a recognition of the role of country governments and the private sector as *the* key actors in international development, with USAID and other bilateral donors as much smaller but catalytic actors. For example, the MDGs included a goal on partnerships, but this was almost as an afterthought. In contrast, the SDGs put emphasis on partnerships and speak of "revitaliz(ing) the global partnership for sustainable development." Monterrey, Doha, and Addis Ababa each reference the private sector as an important actor in international development, but the emphasis has expanded each year. Monterrey's outcomes document includes five paragraphs in its "Domestic and International Private Business and Finance" section, while Doha has seven and Addis Ababa has 15. Addis Ababa speaks of "partnerships" 28 times, which is more than twice the usage of this term in the previous two documents.

It's very important to note something else that has happened: increasingly, many countries are taking control of their own futures through their own investments and the taxes they collect. A rising global middle class is better able to contribute tax dollars to their national and local governments. These citizens are also demanding more in terms of good governance, delivery of services, and general quality of life. Additionally, foreign companies in these countries are better able to join the international development conversation through partnership with governments and joint ventures with companies in developed countries. As globalization leads companies and other private sector actors to broaden their engagement geographically and grow their wealth and expertise, there are increased opportunities for new partnerships. Accordingly, we need to adapt a different way of thinking to remain effective.

Third, this changing global landscape requires official donors to focus their attention on working more closely with the private sector.

One of the ways in which the United States has responded is to think about how we work in partnership with the private sector. In 2011, I directed a report called "Seizing the Opportunity in Public-Private Partnerships" and we defined partnerships as:

> "an approach to solving development problems through a coordinated and concerted effort between government and nongovernment actors, including companies and civil society, leveraging the resources, expertise, or market efforts to achieve greater impact and sustainability in development outcomes."

The good news is that the U.S. government and the international community have sought to work more closely with the private sector. This is reflected in the success of the Global Development Alliance at USAID. USAID has put together approximately 1,600 partnerships since 2001. In 2011, a report by the OECD described USAID as a leader in public private partnerships. USAID has built partnerships with leading U.S. businesses, including Walmart, Chevron, Coca-Cola, and others. These partnerships have sought to tap not only the financial wherewithal of these companies, but also their unique knowledge and skill sets. One example is the Angola Partnership Initiative built with Chevron beginning in 2002. Although this is an older example, this partnership was not only important in the impact that it had on the ground through economic development, but it also opened the eyes of other corporations and USAID leadership to the viability of partnerships. There are many examples of successful partnerships.

Public-private partnerships are not a Republican or a Democratic concept. The Global Development Alliance initiative was supported strongly by former President Bush, then Secretary Powell, and my mentor and friend, former USAID Administrator Andrew Natsios. The Global Development Alliance was developed and led by a group of civil servants and foreign servants, especially Holly Wise and Curt Reintsma. Former Secretary of State Hillary Clinton was also a big proponent of partnerships during her tenure. She called upon a number of folks including Jim Thompson, a civil servant from USAID, and now the Director of Innovation at the State Department, to innovate and evangelize partnerships within the State Department and across the inter-agency.

However, many systems, rules and instruments still reflect a past set of assumptions of how development happens and that seem to ignore the central role of the private sector and the catalytic (*not* central) role of aid agencies. These include inflexible instruments, overly earmarked money and processes, lack of incentives at leadership and middle management levels, outdated procurement rules and stifling regulations, and a very aggressive counter-bureaucracy that support the United States as the “largest wallet” rather than a “catalytic wallet.”

It is important to note that partnerships are not *the* solution to every global problem, but rather one important approach. Yet they offer the promise of collaboration to tackle some of the world’s most intractable issues; issues that no entity can solve on its own. Some challenges will continue to require the U.S. government or other governments to lead with development assistance. For example, the response to pandemics including Ebola and Zika must be led by government, but we have seen that they can never be wholly solved by government acting alone. Other challenges, including human rights, democracy promotion, and governance issues, do not necessarily lend themselves well to partnership approaches.

Partnerships, however, represent just one facet of how development agencies can engage with the private sector. The United States, and other bilateral donors, should look to strengthen their existing development finance institutions (DFIs); in the case of the U.S. government, this means the Overseas Private Investment Corporation (OPIC). OPIC and other DFIs offer financing instruments (loans, loan guarantees, and risk insurance) to private sector entities seeking to make investments in developing countries. This support for the private sector is critical in countries where access to finance is limited, but demand remains high for investment, and OPIC and other DFIs can help to “crowd-in” private investment.

The momentum around private sector engagement and partnerships as key drivers of international development is growing. Expanding and improving partnership policy and mechanisms should a focus of U.S. government agencies as they continue to be world leaders in international development.

In closing, I offer the following responses to the Chairman and Ranking Member's specific points of inquiry with respect to this hearing.

1. Please discuss your views on how the U.S. government partners with the private sector to leverage U.S. taxpayer dollars.

The United States operates in several kinds of public-private partnerships for international development:

1. **Development finance instruments that make use of guarantees and loans to "crowd in" the private sector.** This approach is led by OPIC and other development finance instruments including the Development Credit Authority (DCA).

    - The U.S. government should lift the ceiling on OPIC lending and insurance and allow it to increase its number of full-time employees. The U.S. government should also raise the lending ceiling for DCA instruments.

2. **Mixed finance for large infrastructure projects.** While the U.S. government has largely moved away from global infrastructure investment in recent years, U.S. government actors including the Millennium Challenge Corporation (MCC), the U.S. Trade and Development Agency (USTDA) and multilateral organizations including the International Finance Corporation (IFC) invest in infrastructure projects including privatized roads and airports.

3. **Partnerships that bring together a government agency such as USAID or the State Department and one or more private sector actors, including for-profit companies, business associations, NGOs, and others.** These are funded by grants and combine public and private assets and resources for a specific development objective.
    - USAID has been a world leader in public-private partnerships (PPPs), highlighted by its successful Global Development Alliance (GDA) model. Since it was established in 2001, USAID has engaged in over 1,600 PPPs in every region of the world.

2. What are the benefits and challenges of these public-private partnerships?

Benefits:

- PPPs bring needed private sector financing to the table.
- Companies bring their global supply chains, Foreign Direct Investment (FDI), formal jobs, attention to environmental and labor standards, and new technologies.
- Involving companies in a development project can also lead these initiatives to be more effective and efficient. This is especially the case when a company has a clear

business interest in the initiative. Long-term business interests in the communities where PPPs are implemented can bring scale and long term engagement.

Challenges:

- Partnerships require that the U.S. government answer a couple of challenging questions that are not present in traditional development projects. The first relates to forming partnerships - "how do you get people to work with you who don't work for you?" The second relates to durability of the partnership – "how do you keep people working with you who do not work for you?"
- Partnerships are more time-intensive to structure than traditional development projects.
- It can be difficult for companies to work with U.S. government systems.

3. What can businesses do that the U.S. government cannot?

In addition to providing needed financing, private sector partners also bring other important resources to partnerships – technical expertise on topics including health, agriculture, and technology; innovation; their supply chains.

4. How are the interests of the U.S. government safeguarded when partnering with other entities?

I will use USAID as a proxy for the answer to this question.

USAID has sought to balance its fiduciary duty to taxpayers and the US Congress and to its beneficiaries with the changing world that I described above. There have been several innovations that are within the Federal Acquisition Regulations and USAID's policies and procedures. These include the release of a partnership "Annual Program Statement" which explicitly invites outside actors to submit statements of interest on potential partnerships that address areas of need in developing countries. Second, USAID has developed something called the Collaboration Agreement and something else called the Broad Agency Announcement which allows USAID to try new approaches to engaging with private actors and co-designing projects.

USAID also engages in various forms of due diligence with various new partners.

5. How can we further leverage and multiply the impact of U.S. taxpayer dollars in foreign aid in the future?

Given that private investment is so central to international development, it is important that the U.S. government continue to empower the instruments that leverage global private investment. This includes:

- Follow through on CSIS's 2013 bi-partisan Development Council recommendations: 1) Make Broad-based Growth the Central Organizing Principle of U.S. Development Policy including shifting $350 million from other foreign-aid accounts to economic-

growth activities and promoting entrepreneurship through development finance and technical assistance.
2) Align U.S. Development Instruments with the Private Sector including: Program 25 percent of development agency funds through partnerships, Simplify and streamline partnership formation, coordination, and planning and Leverage U.S. business practices, supply chains, and training

- **Doubling USTDA's budget from $60 million to $120 million.** USTDA has 30 years of experience in project preparation and documented success in completing high-quality infrastructure projects. USTDA Director Lee Zak is an incredibly able leader.

- **Increasing OPIC's combined statutory ceiling for financing and risk insurance and allow OPIC to retain some of its profits.** This capital can be used to pay for hiring the additional full-time employees that OPIC needs to source and structure deals in the United States and overseas.

- **Further emphasizing partnerships and ensuring the flexibility to create them throughout USAID. While partnerships have largely been mainstreamed within USAID, there is opportunity for further emphasis on this throughout the Agency.** USAID needs some additional "centrally managed" money that USAID missions should be able to access and this money should be managed by USAID's Global Development Lab. USAID should continue building the capacity of its policy and personnel towards more flexibility, more utilization, and more creativity.

- **Continuing to shift the operational culture towards private sector engagement.** There have been a significant set of cultural and generational changes, including changes in incentives, that have created spaces for innovators within the U.S. government. Partnerships have become much more "democratized."

- Reflecting this mindset change, USAID's mission even states that it "partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity." However, there are still some people within the U.S. government with a different theory of change; These folks still view themselves as having the largest wallet in the roo, see the private sector as basically bad, have a very hard time accepting that a company might be making a profit in a developing country and view a "business case for development" with suspicion. There are a separate set of problems related to success in partnering including several parts of the USG reaching out to the same company or seeing the private sector as "just a purse" or another "funding account." The solution is constant messaging and modeling of good partnership practice from senior management at agencies like USAID, State and the MCC.

- **Move toward networked multi-stakeholder partnerships.** USAID is moving away from smaller, one-time partnerships to these types of coalitions and should continue doing so, while engaging more and more kinds of partners locally. Ultimately, USAID's goal should be to work itself out of a job.