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The Role of the U.S. Government in Promoting Private-Sector Development Solutions

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Executive summary

A series of seismic changes are fundamentally altering how we should think about the relationship between public and private flows targeted at promoting development. This shift is reflected in the policies of the Obama administration, yet U.S. assistance programs haven't sufficiently evolved to take advantage of the new development landscape. Most in the development community, including those in the private sector, still tend to behave as if the 87 percent of private flows for development need to figure out how to work with the 13 percent of U.S. government flows, rather than the other way around. A new mindset should focus on where U.S. official development assistance (ODA) uniquely adds value. This is likely to be where U.S. ODA can complement other, larger private flows. U.S. assistance will need to both effectively partner with the private sector on joint development initiatives in agreed-upon areas and serve as a constructive force in shaping a more enabling policy environment that ultimately draws in more private capital. The former may include sharing development know-how and good practice to private sector partners. The latter may include investing in infrastructure, market making and strengthening institutions.

What's the issue?

A series of seismic changes are fundamentally altering how we should think about the relationship between public and private flows targeted at promoting development.

The most obvious trend—and most oft referred—is the huge shift in financing for development that has occurred over the last two decades. Whereas U.S. assistance spending once dominated financial flows headed for the world's developing countries, U.S. ODA is now an ever-dwindling proportion of an ever-growing pie. Total U.S. resources dedicated to development in 2010 amounted to some $204.5 billion, 87 percent of which was private flows.[1]

The percentage of government funds dedicated to development will only continue to decline in the U.S. and global mix over time. Domestic resource mobilization within developing countries, remittances, private investment and private philanthropy all now outpace America's foreign aid spending— and that is not a bad thing.

The second major shift has been the sharp spike in the number and different types of donors around the globe, which has forced the United States to engage in more collaborative approaches to aid. Whereas the United States often used to be the lone donor operating in a country in the 1960s and 1970s, nations like Russia, China, Brazil, India, the United Arab Emirates and Kuwait have joined the ranks of donors, as have almost all members of the European Union. Private philanthropies like the Bill & Melinda Gates Foundation disburse more funds annually than many bilateral donors.

In short, there is more money available for development and more players involved in development than ever before. Against this backdrop, there has also been an explosion of new public-private partnerships taking place on everything from immunizations to reforestation to water and sanitation. These partnerships have often been the most visible form of the government's work with the private sector in advancing development, but they are by no means the only avenue for this effort.

The recently completed report of the U.N. High Level Panel on the post-2015 development agenda[2], an effort of which we were both honored to take part, acknowledged both public-private partnerships and a new global sense of multilateral partnerships as fundamental to the core goal of eradicating extreme poverty by 2030.

The Obama administration has certainly placed a heavy emphasis on capturing the dynamism of the private sector in its policy approach to development. The president's Global Development Policy, released in 2010, not only identified development as a key leg of our national security strategy, but also made clear that the U.S. government needed to embrace a "new operational model that positions the United States to be a more effective partner and to leverage our leadership." [3]

By any measure, the U.S. Agency for International Development (USAID) under Administrator Raj Shah has enthusiastically embraced partnerships with the private sector as a hallmark of its approach to development cooperation. Furthermore, there have been some real accomplishments in that regard. The New Alliance for Food Security and Nutrition is an innovative partnership designed to lift 50 million people out of poverty over 10 years and represents substantial commitments from African governments, the G-8 and the private sector. According to the U.S. government, the New Alliance now represents more than $3.75 billion of commitments from more than "70 global and local companies to increase the incomes of smallholder farmers through essential actions like expanding seed production and distribution, and developing infrastructure."[4]

Similarly, the Child Survival Call to Action brings together an incredibly diverse set of actors—governments, multilateral institutions, donors, companies, private philanthropies and others—in an effort to prevent some of the close to 10 million deaths of children under the age of five every year.[5]

Increasing numbers of global companies are demonstrating not only a genuine commitment to sustainable development but real ingenuity in how they go about it. Consumer product giant Unilever is utilizing its sophisticated marketing tools as part of a global handwashing campaign.[6] While that may sound rudimentary, it has obvious public health benefits. Unilever cites a clinical trial conducted by their brand Lifebuoy in India showing that increasing handwashing led to a 25 percent reduction in diarrheal disease, a 19 percent reduction in acute respiratory infections and a 46 percent reduction in eye infections.[7] Unilever stresses that this campaign is good for their bottom line, is good for consumers and is making a real contribution to public health. Along these same lines, Coca-Cola has invested in water projects across Africa, recognizing that clean water is both essential to human development and an essential element of producing their product.[8]

U.S. assistance has also taken an increasingly catalytic approach to innovation and to working in conjunction with the private sector and academia to promote new technologies and ensure that they are adaptable to local conditions. U.S. government efforts to set up a major constellation of research institutions working on development have enormous potential.

The emerging emphasis on public-private partnerships and figuring out how U.S. assistance can better harness the dynamism and power of private capital for lasting development is welcome and, in many ways, overdue. Yet, this emphasis also begs a larger question: Have U.S. assistance programs sufficiently evolved to take advantage of the new development landscape? We would argue they still have further to go.

What needs to happen and why?

We simply need to go much further in shifting U.S. assistance programs to where they truly add value in the current environment and provide the skills and resources that others cannot. We also need to address the enduring perception in many quarters that public-private partnerships are more about public relations than about actually leveraging investment and making a development impact.

One of the hurdles to such a value-added approach can be found in the traditional way the U.S. government targets its assistance. During the period in which the U.S. government was one of the few players in the development landscape, the controlling philosophy of our aid programs was much like that of the U.S. Postal Service. U.S. foreign aid was directed to almost every country and involved in every sector. We reasoned that if we weren't there, no one would be, and we were quick to overlook bad governance and a lack of local commitment to reform.

Yet that tendency to try to do everything everywhere is now a direct hindrance to moving toward operations that would better complement private investment in development. While the administration has rhetorically embraced the idea of being more selective, it has found this selectivity much harder to actually implement. USAID—often buffeted by pressure from the State Department and Congress—has a very hard time leaving countries. Indeed, in the president's 2014 budget request, the administration proposes aid in some form for 143 different countries, with 99 slated to receive economic assistance and 134 to receive security assistance.[9] Many private sector partners have expressed frustration in dealing with USAID's sprawling mission structure around the globe, suggesting that agreements and arrangements made in headquarters have not always been clearly transmitted or prioritized within individual missions.

Frustration with the mile-wide, inch-deep approach to assistance, which has always been driven in part by extensive congressional earmarks, led the Bush administration to establish the Millennium Challenge Corporation (MCC). The MCC's key approach has been to focus more, and better concentrated, assistance in countries that meet pre-determined eligibility criteria based on rigorous standards and data. An overall approach in which all U.S. assistance programs targeted fewer countries with greater resources would likely be more effective in delivering change in this new environment.

In reality, most in the development community, including those in the private sector, still tend to behave as if the 87 percent of private flows for development need to figure out how to work with the 13 percent of U.S. government flows, rather than the other way around. It is a rare partnership, indeed, in which a 13 percent stakeholder sees itself in a majority position. In this new era, U.S. government assistance needs to be deployed in a truly catalytic fashion, taking on the roles that the U.S. government is uniquely positioned to fulfill. U.S. assistance will need to both effectively partner with the private sector on joint development initiatives in agreed-upon areas and serve as a constructive force in shaping a more enabling policy environment that ultimately draws in more private capital. Several areas stand out in both regards.

One of the most obvious areas is that of infrastructure. Making connections for the poorest of the poor to the economic and social lives of their countries is good for the poor, good for development and good for business. Accomplishing that task, however, often requires significant investments in infrastructure, including roads, ports, telecoms, water systems and more. The U.S. government doesn't need to be the sole financial backer of such efforts which, by their nature, should likely include domestic resource mobilization, funds from international financial institutions and, in most cases, the private sector itself. The U.S. government, through Overseas Private Investment Corporation (OPIC) loan guarantees and other mechanisms, can help prime the pump for these crucial infrastructure investments. It can also greatly facilitate planning and help make sure that infrastructure development is done in a socially and environmentally responsible fashion. U.S. assistance will be even more crucial when looking at the complex negotiations that are often involved in developing regional infrastructure. Here, the administration's recently announced Power Africa initiative is an encouraging step that seems to rely on a diverse set of tools to move this agenda forward, including loans, technical assistance and traditional grants across multiple agencies.

Indeed, many of the most important obstacles to growth in a place like Africa today relate to the flow of goods and services over borders, the difficulty of navigating customs regimes and the failure to develop adequate infrastructure—much of which should be considered and rationalized on a regional basis.

Addressing these key constraints to growth remains an important need that no private company, NGO or philanthropic group is likely or able to take on. Strengthening regional linkages and trade is an area in which U.S. development expertise and skilled diplomacy can work hand in hand with international financial institutions like the World Bank and the International Monetary Fund to create an enabling environment that will not only spark private investment but will also make it far more likely that existing development programs succeed.

Moving forward, U.S. assistance will need to increasingly focus on ways in which it can help transform markets to maximize social benefits and minimize environmental damage. In many cases, this may entail the U.S. government working with large coalitions of companies on issues that are essentially "pre-competitive." The Tropical Forest Alliance is a good example of this approach, with the alliance working to mobilize and coordinate actions by governments (in the case of the U.S., through USAID), the private sector and civil society to eliminate deforestation from palm oil, soya, beef and paper supply chains by 2020.[10] Development becomes sustainable when business, development experts, governments and citizens are able to truly marry a profit motive with practices that deliver needed goods without needlessly eroding the environment.

In addition to helping clean up supply chains, more and more U.S. assistance should be dedicated to tackling the institutional barriers that prevent domestic resources and private capital from driving development. The U.S. government has taken some useful steps forward in this area. As noted, the Millennium Challenge Corporation's transparent and rigorous application of standards and data in determining eligibility for its funding has sent a very positive message that money will flow toward reform. If such practices were more widely applied across the entirety of the U.S. government's economic and security assistance portfolios, U.S. assistance could serve as a key bellwether to help inform private philanthropy and private capital where their investments are most likely to succeed. This, in turn, would help generate positive competition from reform- minded countries to shape an enabling environment that is friendly to investments in education, business, health care, infrastructure and other key areas.

The U.S. government has also developed the Partnership for Growth initiative, which brings together multiple U.S. government agencies—USAID, the State Department, the Millennium Challenge Corporation and others—on the basis of a technique championed by the MCC to jointly analyze the key constraints to growth within a country. After jointly identifying constraints to growth, the U.S. government develops a joint plan with the focus country to address these core constraints. The Partnership for Growth initiative is only active in four pilot countries to date, but it and the work of the MCC are both pointed toward a much-needed systems approach to growth.

Ideally, this approach should be scaled up and expanded. Not only should the U.S. government use its analytical firepower and diplomatic leverage to identify and address constraints to growth within a country, it should also do so on a regional and subnational basis. What are the obstacles to achieving better, more sustainable and equitable growth within a mega-city or across a region like East Africa? How can these structural impediments be coherently and systematically addressed through policy change and investment?

Going forward, another vital focus for the U.S. government will be helping countries emerge from conflict and assisting them while still in conflict. The United States has long been the most generous provider of humanitarian assistance in the world and will likely remain so. However, in a world where more than 40 percent of the world's poorest of the poor live in fragile and conflict-affected states,[11] that is no longer enough.

In particular, the U.S. government and institutions like the World Bank need to do a far better job in finding ways to energize private sector investment in countries trying to emerge from conflict or undergoing a democratic transition. Positive economic growth is highly correlated with the likelihood that a country does not slip back into conflict and instability.[12] However, in a world with many investment choices, private capital is often very reluctant to move toward risky investment climates. Thus, it will likely take some creative measures that put a positive thumb on the scale, such as risk insurance or other means of partially underwriting investments, to help get much-needed capital flowing in these environments. This is exactly the kind of role that the U.S. government can play while few others could step up to the plate.

U.S. assistance also has an important role to play in helping countries establish viable social safety nets that provide a floor of protection to the poor and cushion them from shocks. Social safety nets are a cost- effective investment against the many risks that can derail progress in areas like economic development, health, education and food security. These protection programs help ensure that a family with some degree of income does not fall back into extreme poverty when a husband unexpectedly falls ill; when drought destroys two-thirds of the family's crops or harvest; or when food become otherwise unaffordable because of a sudden global spike in prices. Ultimately, these safety nets will have to be owned and managed at the national level, but outside assistance is often instrumental in getting them up and running, providing an important measure of resilience in an increasingly volatile world. When discussing what governments can do and what business can do, it is important to note that public funding and social safety nets are increasingly vital, given the relative volatility of markets, food prices and climate in today's world.

Lastly, the U.S. government has been in the development business a long time. It has a very strong repository of best practices and ways to evaluate whether or not assistance programs are effective. With increasing numbers of donors, and more and more public-private partnerships in the landscape, effective evaluation of these programs is essential—all the more so given lingering suspicions between civil society and the private sector in many countries. Public-private partnerships can mobilize money and seem fantastic on paper, but if they are not consultative with the people they are designed to assist, they simply won't be effective.

Recommendations

In summary, we would make several key recommendations: The U.S. government should increasingly apply a "constraints to growth" analysis on a regional basis; it should work with multilateral partners and the business community to develop specific mechanisms to jumpstart investment and growth in post-conflict and transition countries; and it should bring a more focused approach to supporting and funding early-stage, market-based solutions which cry out for the patient, low-return, sometimes high risk capital that only governments are equipped to provide.

The United States government has come a long way in revolutionizing a mutually beneficial relationship between the public and private sectors on development. This trend enjoys unusually bipartisan support in a town where bipartisanship has fallen on hard times of late. Equally true is the assertion that the U.S. government has much further to go. When we start talking about "private-public" relationships, rather than the other way around, we will probably be well on our way.

Endnotes

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