U.S. Government Engagement with the Private Sector on International Development

Author
Holly Wise

February 2012
About CSIS—50th Anniversary Year

For 50 years, the Center for Strategic and International Studies (CSIS) has developed practical solutions to the world’s greatest challenges. As we celebrate this milestone, CSIS scholars continue to provide strategic insights and bipartisan policy solutions to help decisionmakers chart a course toward a better world.

CSIS is a bipartisan, nonprofit organization headquartered in Washington, D.C. The Center’s more than 200 full-time staff and large network of affiliated scholars conduct research and analysis and develop policy initiatives that look to the future and anticipate change.

Since 1962, CSIS has been dedicated to finding ways to sustain American prominence and prosperity as a force for good in the world. After 50 years, CSIS has become one of the world’s pre-eminent international policy institutions focused on defense and security; regional stability; and transnational challenges ranging from energy and climate to global development and economic integration.

Former U.S. senator Sam Nunn has chaired the CSIS Board of Trustees since 1999. John J. Hamre became the Center’s president and chief executive officer in 2000. CSIS was founded by David M. Abshire and Admiral Arleigh Burke.

CSIS does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

Cover photos: Top: Joint Task Force sandbagging along a pathway in Haiti is a flood mitigation measure designed to prevent the soil from washing away; photo by USAID, http://www.flickr.com/photos/usaid_images/4545498449/. Bottom: The wash basins at this Indian school are set at different heights for use by girls of different ages; photo by Overseas Development Institute, http://www.flickr.com/photos/overseas-development-institute/2642788348/.

© 2012 by the Center for Strategic and International Studies. All rights reserved.

Contents

Background 1

Organizations 5

Agency for International Development 5
President’s Emergency Plan for AIDS Relief 7
Millennium Challenge Corporation 9
Trade and Development Agency 11
Department of State 12
Overseas Private Investment Corporation 14
Department of Treasury 16
Department of Agriculture 17
Department of Defense 19

Conclusions and Recommendations 21

About the Author 23
Engaging the private sector in addressing global development is not new. U.S. government agencies have worked in varying ways with private partners from the for-profit and nonprofit sectors and with civil-society organizations over the last 50 years. The range of engagement has included organized private-sector input to the U.S. government foreign-aid establishment through an advisory body functioning since the Truman era, as well as partnerships with companies and foundations to leverage private-sector resources and joint action toward reducing poverty and combating disease.

Based on public documents and interviews with organizational representatives, this paper provides snapshots of U.S. government organizations and their interaction with the private sector in international-development activities. It looks at some commonalities and distinctions and suggests opportunities for enhancing the effectiveness of such collaboration. We are indebted to interviewees for their generous contributions of information and valuable perspectives.

Background

Technological advances (particularly in communications and transportation), the ideological dominance of free-market capitalism after the fall of the Berlin Wall, and the shift in the direction of privatization, deregulation, and open borders, have created a rapidly changing social, economic, and demographic landscape in developing countries. The Internet, mobile phones, remittances by diaspora communities, social networks, and cause-related marketing are some of the advances that change the way developing and developed countries interact with one another. The rise in the number of locally based nongovernmental organizations (NGOs) and civil-society organizations has given voice to a new generation demanding greater inclusion in implementing and planning foreign assistance. The profusion of NGOs in the developing countries is especially striking. In 1999, The Economist estimated the number of NGOs worldwide at 2 million and of NGOs in India at 1 million.

Transnational networks of interested nongovernmental parties are bringing to attention new issues, exchanging information, influencing policy, and advocating for implementation. As scholars,

1. The Advisory Committee on Voluntary Foreign Aid (ACVFA) was established by presidential directive in 1946. See http://www.usaid.gov/about_usaid/acvfa/acvfacart.html.
policymakers, and development implementers have noted for at least 20 years, new players have emerged and along with them new means of engagement.

All of these groundbreaking changes are paralleled by the rapid and dramatic increase in private financial flows. Flows of private investment capital to the developing world from the advanced economies have skyrocketed to surpass the value of official development assistance. In the 1960s, public flows of capital to the developing countries accounted for 71 percent of total flows ($5.1 billion) compared to only 29 percent from private sources (refer to figure 1). By contrast, in 2009 U.S. official development assistance amounted to $28.8 billion, only 13 percent of $226.2 billion in total financial flows to developing countries. Remittances made up the largest component, 40 percent, at $90.7 billion, followed by private capital flows, 31 percent, at $69.2 billion. U.S. private philanthropy made up 17 percent with $37.5 billion5 (see figure 2).

The trend toward greater private capital flows is global. In 2009, private investment from Organization for Economic Cooperation and Development (OECD) donor countries to developing countries totaled $228 billion, making up the largest source of financial flow from all developed to developing countries. Remittances, philanthropy, and private-capital investment in 2009 totaled $455 billion, almost four times as much as official development assistance, $120 billion.6 It is striking to note that nearly 80 percent of total OECD and 87 percent of U.S. total economic engagement with developing countries came through private financial flows.

National governments are no longer the sole player in foreign-development assistance. Development policies and priorities are increasingly influenced and defined by patterns of trade, investment, and migration. Financial flows, the rise of nonstate actors in the international-development arena, and the complexity of issues to be tackled globally have contributed to shifts in the power and role of the public sector, in particular the U.S. government. In some cases public-sector organizations have changed in form and function to accommodate this opportunity and imperative to engage the private sector. There is additional scope for constructive engagement of the private sector in international development as well as opportunities for effecting productive interagency collaboration.

Reasons remain, however, why the government cannot fully engage the private sector, and in turn the private sector may be reticent or unable to work closely with government agencies. One disconnect concerns culture, communication, and pace of activity. Government agencies and multilateral organizations often lack precise plans for action and deliverables. This uncertainty can make an investment in a partnership riskier, and thus more difficult to justify. Companies expect investment partners to contribute specific resources or assets that add an otherwise unobtainable value to a partnership. The private sector also seeks investments that may scale up to additional countries and regions.7 Part of the problem may lay with the nature of international development, but government agencies could also make some changes that could lower the administrative costs for companies and organizations seeking to collaborate.

6. Ibid., 15.
Figure 1. U.S. Resource Flows to the Developing World in the 1960s: $22.8 Billion (in constant 2009 U.S. dollars)

![Pie chart showing resource flows with public flows at 71%, private flows at 29%, U.S. official development assistance at 71%, private flows at 27%, and other official flows at 2%]


Figure 2. U.S. Resource Flows to the Developing World in 2009: $226.2 Billion (in constant 2009 U.S. dollars)

![Pie chart showing resource flows with public flows at 13%, private flows at 31%, remittances at 40%, total private philanthropy at 16%, and other categories as noted]

The U.S. government still has a strong and positive role to play in engaging the private sector for international-development purposes. Governments are essential for delivering public goods and national infrastructure. In addition, governments must make and enforce law and provide some level of income redistribution to its citizens. National governments are still ultimately responsible for setting goals for its territory and protecting the physical well-being of its citizens. For the private sector to function effectively and equitably, the role of the government is essential and may need to be significantly strengthened in some contexts for private-sector investment to maximize its potential for economic development.

Government agencies and the private sector have different motivations for engaging in some level of public-private partnerships or public-private collaboration. From the government’s perspective, the private sector offers unique expertise and resources and the greater potential for project sustainability after the government’s involvement. The private sector benefits from the U.S. government’s own unique development expertise and resources, credibility, access to government officials, and increased scale of operations.

Projects benefit from greater access to technology and, significantly, intellectual property. Public-private partnerships also benefit from shared risk and resources, as well as increased access to markets and business networks. The adaptation of best business practices also helps public-private collaborations increase efficiency.

There are potential drawbacks to public-private collaboration. Foremost is the risk of distorted development objectives. The appearance of governments picking “favorites” among corporations is undesirable as there can be a domestic backlash if the U.S. government is seen as using public funds to advance private business interests. There is also the potential damage to the U.S. government’s reputation if a partner corporation acts unethically or irresponsibly in any of its worldwide operations. This point should not be underestimated since the U.S. government’s reputation lends public-private collaborations legitimacy and gravitas. Public-private collaborations may also disadvantage the least-developed countries, which may not have the social, political, or economic infrastructure to interest potential private-sector partners who view the investment environment as too risky. There are also claims that helping U.S. private enterprises employ people abroad gives away American jobs.

Private sector-based solutions are not always the most appropriate tools for development. Although in some cases market-based incentives can increase efficiency and effectiveness, they can also produce negative outcomes. Competitive tenders and renewable contracting may provide material incentives for securing and maintaining contracts in the short term rather than prioritizing long-term mission success.

U.S. government agencies can work with the private sector in various ways. The spectrum of engagement spans direct contracting with private vendors for goods and services, to discussing policy or strategy in broad off-the-record conversations. Table 1 provides an overview of the typologies of private-sector engagement commonly used by U.S. government agencies.

---

8. This can be as simple as maintaining a progressive tax system or subsidizing education, or as complicated as nationalized health care and pensions.
Table 1. Typology of Engagement by U.S. Government Agencies with the Private Sector

<table>
<thead>
<tr>
<th></th>
<th>Direct contracts</th>
<th>Loans to U.S. firms</th>
<th>Grants to private sector</th>
<th>Receipt of cash or in-kind donations</th>
<th>Policy and strategy engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAID*</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>PEPFAR*</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>MCC*</td>
<td>✓**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USTDA*</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>OPIC*</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Agriculture</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* U.S. Agency for International Development (USAID); President’s Emergency Plan for AIDS Relief (PEPFAR); Millennium Challenge Corporation (MCC); U.S. Trade and Development Agency (USTDA); Overseas Private Investment Corporation (OPIC).

** Mostly indirect through host-country compacts.

Organizations

Agency for International Development

Description of Engagement in International Development

The U.S. Agency for International Development (USAID) is an independent federal agency that receives foreign-policy guidance from the secretary of state. USAID's mission is to support long-term and equitable economic growth and to advance U.S. foreign-policy objectives by supporting states through economic growth, agriculture and trade, global health, democracy, and conflict prevention and humanitarian assistance.

USAID activities span the world and are divided into five regions: sub-Saharan Africa; Asia; Latin America and the Caribbean; Europe and Eurasia; and the Middle East. USAID has 3,710 employees worldwide and operates with more than $1.65 billion in appropriated funds. Unlike the multilateral development banks and some other bilateral donors, USAID provides funds directly to the private sector, not just through the host-country government.

Private-Sector Engagement in Consultation and Operation

USAID has embarked on an overarching reform agenda, USAID Forward. As part of this agenda, USAID brings together academics, social entrepreneurs, and other people from the private sector.

---


to work with agency staff on program development, impact evaluation design, and components necessary to scale-up operations in addressing greatest global needs and opportunities. Specific components of USAID Forward that invite private-sector participation include revitalization of the Global Development Alliance, and two new activities: Grand Challenges for Development and the Development Innovation Ventures.

The Global Development Alliance (GDA) was established in 2001 to increase the range of prospective partners and leverage new resources and technologies to address international development. By combining the assets and experiences of strategic private-sector partners, GDA leverages capital, creativity, and access to markets to solve complex problems facing governments, businesses, and communities worldwide. GDA focuses on creating alliances that spur private-sector-led development and investment even after the initial alliance is over. Grant funding is in pooled or parallel mechanisms to support alliances with private partners.

USAID has formed more than 1,000 multilateral partnerships, with some 3,000 partners to leverage more than $9 billion in combined resources. Seventy-three percent of GDAs focus on one country and are implemented at the mission (country-office) level. Seventy percent of partnerships last no more than three years and involve fewer than five partners. Thus far, 26 percent of GDAs have targeted economic growth, while health and environmental issues have each been the focus of 13 percent of GDAs.

A newly established Office of Science and Technology engages in scientific partnerships to leverage the resources of federal agencies and private organizations. This office seeks to expand and develop partnerships that increase USAID’s technical capacity, identify areas where existing technologies may apply to shared development problems, and identify shared challenges that affect the agency at home and abroad. Here USAID hosts a Grand Challenges for Development (GCD) initiative to attract innovative solutions to development challenges. GCD describes problem states in hopes of inspiring foundations, corporations, and individuals to solve these challenges in scalable and sustainable ways.

Through another initiative, Development Innovation Ventures (DIV), USAID emphasizes producing development outcomes more effectively and cost-efficiently. To accomplish these goals, USAID works with development partners through DIV to identify and test potential breakthrough solutions and help bring them to scale. DIV seeks applications that show potential for substantial improvement to development outcomes. DIV uses staged financing to maximize cost-effectiveness and minimize risk, and stresses the importance of rigorous testing to identify solutions proven to produce positive development outcomes.

Challenges

Listening to mission directors to identify needs is essential, but USAID lacks ground-level experience and resources to initiate and sustain public-private partnerships. Strengthening and continuing a one-stop shop for engaging the private sector at headquarters may facilitate partnerships and help with managing relationships. The tension between central and local action and ownership, as well as incentives for private-sector engagement, need to be managed.

A wider understanding of how the private sector operates would also help USAID to accomplish more. The fact is that most of USAID’s employees do not come to the agency with 10 or more years of experience in the private sector, so there can be a lack of understanding of private-busi-
ness practices and the role the private sector can play in development projects. Sometimes, government partners may not trust the private sector and view government-private relations as zero-sum. Intergovernmental advocacy may be needed on the role private business can play in development and the link between U.S. economic prosperity and foreign development.

USAID highlights a need for communication between and among agencies. Outreach to the private sector is decentralized and may not leverage optimal engagement as a result. Several government agencies may also work in parallel or overlapping fashion in building partnerships with private companies and organizations. There is scope for greater whole-of-government harmonization in engaging with the private sector in international development.

President’s Emergency Plan for AIDS Relief

Description of Engagement in International Development

The U.S. President’s Emergency Plan for AIDS Relief (PEPFAR) is the U.S. government’s initiative to save the lives of those affected by HIV/AIDS around the world. This historic commitment is the largest by any nation to combat a single disease internationally, and PEPFAR investments also help alleviate suffering from other diseases across the global health spectrum. PEPFAR is driven by a shared responsibility among donor and partner nations and others to make smart investments to save lives.

As of September 2010, PEPFAR has supported treating more than 3.2 million people, and proving care and support to more than 11 million people. In FY 2010 alone, PEPFAR supported care for more than 3.8 million orphans and vulnerable children, and directly supported prevention of mother-to-child HIV transmission for more than 600,000 HIV-positive pregnant women, allowing more than 114,000 infants to be born HIV-free.

During its second phase (2009–2013), PEPFAR is focused on transitioning from an emergency response to promoting sustainable country programs. PEPFAR seeks for these programs to be country-owned and -driven, addressing HIV/AIDS within a broader health and development context, building upon existing strengths, and increasing impact and efficiency.
Private-Sector Engagement in Consultation and Operation

The reauthorization of PEPFAR in 2008, launching its second phase, states that the private sector must be a priority element of the U.S. government’s strategy for addressing HIV/AIDS globally, and PEPFAR has made good on this mandate. In FY 2010, PEPFAR invested $50 million in public-private partnerships (PPPs) across the spectrum of prevention, care, and treatment, leveraging $54 million from the private sector. Private-sector partners span multinational corporations, indigenous small and medium-sized enterprises, private health provider networks and facilities, foundations, and wealthy individuals. The private sector is playing a critical role in supporting country-level leadership to build sustainable, national responses to the epidemic.

In its second phase, PEPFAR’s strategy to engage the private sector has focused on building partnerships that accelerate HIV prevention, strengthen health systems, and build human resources for health. Private contributions to support sustainable, national responses to the epidemic go beyond philanthropy or cash. The private sector is contributing skills and results-based, market-driven approaches that will make a durable impact.

For example, PEPFAR is increasing the amount of technical assistance going to ministries of health. The private companies are bringing core competencies to this capacity building in management, organizational change/strategy, finance and accounting, contracting and procurement, quality assurance, information technology, and more that enhance the ability of the ministries of health to oversee HIV/AIDS programs.

Expanding and integrating health programs in the workplace is another focus. Since the early days of the epidemic, private companies have played a leading role in sustaining disease response through the workplace. Workplace programs have helped reduce HIV-related stigma. In addition, private companies offer education in HIV prevention, as well as referrals or direct confidential HIV counseling and testing, voluntary medical male circumcision, and access to care and treatment. In high-prevalence settings, workplace programs cover the employee, his/her dependents, and surrounding communities, either through direct provision of services or in some cases through insurance reimbursement.

PEPFAR engages with private companies to address structural factors that impact HIV risk and access to care. For example, PEPFAR is partnering with private and multilateral organizations to address gender-based violence, and mobilize investment to support women’s access to income and productive resources.

Challenges

PEPFAR continues to balance the critical drive for PPPs to be brokered, built, and managed locally, and the need for scale and efficiency across country programs. At the country level, it has been working to build capacity to advance PPPs, primarily with the local private sector. PEPFAR has funded about six dedicated staff to act as PPP focal points, though many more PEPFAR staff regularly engage with the private sector in country. These focal points are increasing the numbers of quality PPPs to the program. In addition, PEPFAR has institutionalized toolkits, as well as convened an annual meeting of private-sector focal points throughout the globe to facilitate South-South learning and disseminate best practices. In parallel, it has supported a strategic number of large-scale, multicountry partnerships that require central support and coordination. Senior leadership within PEPFAR has embraced these private-sector engagements and emphasizes PPPs as a policy priority.
Monitoring and evaluation of PPPs remains a challenge. Though PEPFAR has been able to measure success of individual partnerships, it lacks the metrics and a systematic approach to evaluation that would better enable it to assess the partnerships writ large. Because PPPs are implemented across HIV prevention, care, and treatment programs, each partnership must track its unique programmatic outputs, as well as indicators important to private-sector partners. The only universal measure of PPPs across these disparate program areas is “private resources leveraged,” which often does not capture program-level impact. PEPFAR is currently working with an evaluation partner to develop a more rigorous analytical framework but it has yet to be tested.

Another challenge with PPPs in PEPFAR is that they are implemented through PEPFAR’s seven implementing agencies, each with their own rules and regulations for private-sector engagement as well as development implementation. Harmonizing approaches across agencies and leveraging each agency’s most productive assets continues to be central to the work of PEPFAR’s staff working on private-sector engagement.

**Millennium Challenge Corporation**

*Description of Engagement in International Development*

The U.S. Congress created the Millennium Challenge Corporation (MCC) in 2004 with the mission to reduce global poverty through sustainable economic growth. MCC has 281 employees worldwide and operates with $1.105 billion in appropriated funds.

MCC forms partnerships with some of the world’s poorest countries, but only those committed to good governance, economic liberalization, and investments in their citizens. MCC provides these well-performing countries with large-scale grants to fund country-led solutions aimed at reducing poverty through sustainable economic growth. MCC grants serve to complement other U.S. and international-development programs.

---

13. Figure represents the number of employees in pay status at the end of June 2011. See U.S. Office of Personnel Management, “Employment Cubes.”
14. Figure represents FY 2010 approved appropriations. See Lawson et al., *State, Foreign Operations, and Related Programs.*
The two primary types of MCC grants are compacts and threshold programs. Compacts are large, five-year grants awarded to countries that satisfy MCC’s eligibility criteria. To date, MCC has signed 23 development assistance compacts worth over $8.18 billion.\(^{15}\) Threshold programs are smaller grants awarded to countries that come close to passing MCC’s eligibility criteria and are firmly committed to improving policy performance and economic freedom.

**Private-Sector Engagement in Consultation and Operation**

MCC seeks to reduce poverty through economic growth. It considers the key driver of economic growth to be the private sector and has initiatives to integrate the private sector into program development and implementation. Key to MCC’s strategy is that they seek catalytic investments, which when administered in innovative ways can leverage larger sums of money.

MCC’s Invitation to Innovate (I to I) initiative is a framework to facilitate partnerships with the private sector and NGOs with the goal of soliciting innovative partnerships that will expand the impact of MCC’s investments. I to I partnerships last anywhere from 12 to 60 months and include an award between $50,000 and $250,000 depending on the length and characteristics of the agreement. The I to I initiative is focused on select MCC compact countries\(^{16}\) and select priority sectors, including land tenure and the development of transportation corridors.\(^{17}\)

MCC organizes workshops around specific compact sectors. It invites representatives from each compact country to meet with private-sector experts to discuss trade and investment opportunities related to the compacts. This allows each country’s representatives to work with the private sector to come up with a concrete plan of action to engage the private sector in the future. MCC does not have a Federal Advisory Committee Act (FACA)-approved consultative body, but this has not proven a constraint.

**Challenges**

In the past, MCC did not have a process that engages the private sector early in compact development. By excluding the private sector, the compact becomes a government-to-government affair and the private sector is limited to serving as contractors or beneficiaries. MCC is seeking to prioritize early private-sector engagement in upcoming compacts.

Establishing private-sector engagement as a primary objective would go a long way toward enhancing PPPs. At present, creat-

---


\(^{16}\) Compact countries include Cape Verde, Indonesia, Zambia, Ghana, Lesotho, Tanzania, and Ghana, among others.

ing PPPs is not an explicit goal in compact formation, and compacts are currently not structured to encourage PPPs in terms of shared investment and transfer of management and ownership. Without establishing PPPs as a priority, MCC will not receive adequate management support and budget allocation. Especially in today's tough budget climate, advancing partnerships requires everyone in the agency to understand and support the concept as an active objective.

Trade and Development Agency

*Description of Engagement in International Development*

The U.S. Trade and Development Agency (USTDA) promotes U.S. private-sector participation in development projects in emerging economies. By supporting the development of modern power systems, transportation infrastructure, and information and communications technology in emerging economies, USTDA positions U.S. companies to benefit financially through the export of U.S.-manufactured goods and services when the projects are implemented.

The agency's objectives are to build the infrastructure for trade by matching U.S. technological expertise with overseas development needs, thereby creating lasting business partnerships between the United States and emerging market economies. USTDA has 45 employees based in the United States and $55.2 million in appropriated funds.

*Private-Sector Engagement in Consultation and Operations*

USTDA advances its mission through two key programs, the International Business Partnership Program (IBPP) and the Project Development Program. The agency launched IBPP to connect international buyers with U.S. manufacturers and service providers in order to open new export markets and commercial opportunities around the world for U.S. companies through the activities described below.

By hosting reverse trade missions, USTDA brings foreign buyers to the United States, pending upcoming procurements, in order to observe the design, manufacture, demonstration, and operation of U.S. products and services that can help them achieve their development goals. These strategically planned missions present U.S. businesses an opportunity to establish or enhance relationships with prospective overseas customers.

USTDA also organizes worldwide conferences and workshops to connect U.S. firms with foreign project sponsors. These sector-specific events showcase U.S. goods, services, and technology to foreign buyers and provide those U.S. firms the opportunity to meet one-on-one with overseas project sponsors. In addition, these events provide U.S. companies with a better understanding of U.S. government programs and the role they can play in increasing exports, from advocacy support through the U.S. Department of Commerce to export financing options through the Export-Import Bank of the United States.

Under the Project Development Program, USTDA also provides grants directly to overseas sponsors who, in turn, select U.S. companies to perform agency-funded project development. An overseas sponsor is a local entity, public or private, with the decision-making authority and ability to implement a project. Key project-development activities are described below.

18. Figure represents the number of employees in pay status at the end of June 2011. See U.S. Office of Personnel Management, “Employment Cubes.”

19. Figure represents FY 2010 approved appropriations. See Lawson et al., *State, Foreign Operations, and Related Programs.*
USTDA-funded and U.S.-led feasibility studies link foreign project sponsors with U.S. businesses at the critical early stage when technology options and project requirements are being defined. These studies provide the comprehensive analysis required for major infrastructure investments to achieve implementation. In some cases, export opportunities depend on a demonstration of the U.S. seller’s goods, services, or technologies in the foreign buyer’s setting. USTDA-funded pilot projects demonstrate the effectiveness of commercially proven U.S. solutions and provide the analysis, evaluation, and empirical data needed for potential foreign project sponsors to secure funding.

USTDA also advances economic development in emerging economies by funding technical assistance that supports legal and regulatory reform related to commercial activities and infrastructure development, the establishment of industry standards, and other market-opening activities. This technical assistance facilitates favorable business and trade environments for U.S. goods and services.

Challenges

USTDA faces resource constraints that limit its ability to sufficiently penetrate export markets. The agency concentrates support to sectors of high demand (clean energy, transportation, and information and communication technology) and is unable to support activity in sectors such as agriculture and healthcare that may deliver great overseas development.

USTDA operates as a small and autonomous agency. Effecting integration with other foreign-affairs agencies in engagement with the private sector beyond ex-post information sharing can be a challenge.

Department of State

Description of Engagement in International Development

The U.S. Department of State’s mission is to advance freedom for the benefit of the American people and the international community. Its programs build and sustain a more democratic, secure, and prosperous world composed of well-governed states that respond to the needs of their people, reduce widespread poverty, and act responsibly within the international system.

For the United States, international development is a strategic, economic, and moral imperative, which is as central to foreign policy as diplomacy and defense. The 2010 National Security Strategy defines the U.S. government’s objective: “Through an aggressive and affirmative development agenda and commensurate resources, we can strengthen the regional partners we need to help us stop conflict and counter global criminal networks; build a stable, inclusive global economy with new sources of prosperity; advance democracy and human rights; and ultimately position

Enabling U.S. Companies to Build Capacity for Liquefied Natural Gas in Thailand

In recent years, USTDA has helped PPT, Thailand’s state-owned oil and gas company, design and build the country’s first liquefied natural gas receiving terminal. As a result of a feasibility study funded by USTDA, the $1 billion terminal, which was completed in 2011, contracted with at least 22 U.S. companies to provide services and technologies essential for completing the project.
ourselves to better address key global challenges by growing the ranks of prosperous, capable and democratic states that can be our partners in the decades ahead.\textsuperscript{20}

**Private-Sector Engagement in Consultation and Operation**

Created in 2009 by Secretary Hillary Clinton, the Global Partnership Initiative (GPI) works to create partnerships that use each partner’s expertise and resources in concert to achieve mutual objectives. The Department of State partners on projects that advance U.S. national interest on specific policies such as trade, climate change, and nuclear nonproliferation. In addition, the department partners to support the U.S. government in meeting its humanitarian, charitable, and educational needs overseas. The department also partners to generate increased social and economic gains from direct foreign assistance to foreign governments and publics.

Broadly, public-private partnerships are formed around a shared policy objective, to enhance U.S. reputation and visibility abroad, to benefit from resource sharing, or to achieve a specific diplomatic or development objective. Flagship partnerships include the Global Alliance for Clean Cookstoves, the International Diaspora Engagement Alliance, Partners for a New Beginning, and the Global Impact Economic Forum.\textsuperscript{21} The Department of State partners with organizations, such as government agencies, academic institutions, corporations, diaspora communities, nongovernmental organizations, and educational organizations.

**Challenges**

The Department of State lacks dedicated budgetary resources for pursuing partnership investments. Given the current financial

---


climate and Congress’ continued delaying of passing a budget, a pitch has been made in both the 2012 and 2013 budget proposal for funds dedicated to partnership investments. Laying down the foundation of a partnership requires money and time; contributing adequate funds increases the chance of finding the best country partners and increases the confidence of potential private-sector partners.

Performing due-diligence reviews and screening of companies through the bureaucracy is time consuming and sometimes opaque. Expedited central vetting would greatly increase the ease and speed of creating PPPs.

**Overseas Private Investment Corporation**

*Description of Engagement in International Development*

The Overseas Private Investment Corporation (OPIC) is the U.S. government’s development finance institution. It mobilizes private capital to help solve critical world challenges and, in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs, and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private-equity investment funds. OPIC has 219 employees in the United States and uniquely operates on a self-sustaining bases at no cost to taxpayers.

*Private-Sector Engagement in Consultation and Operation*

OPIC provides medium- to long-term funding through direct loans and loan guarantees to investment projects in developing countries and emerging markets. OPIC complements conventional financial institutions by providing finance where others are reluctant or unable to lend. Typically, the financing of small and medium enterprises focuses on supporting businesses with annual revenues less than $400 million. Consistent with a test applied by the U.S. Small Business Administration, OPIC also considers a business with 500 or fewer employees as “small.” Structured financing is available for businesses with annual revenues greater than $400 million and supports large projects that necessitate substantial amounts of capital.

Typical projects requiring structured financing include infrastructure, telecommunications, power, water, housing, airports, hotels, high tech, financial services, and natural resource extraction industries. OPIC emphasizes financing projects related to renewable resources, including clean energy, as a new priority.

OPIC supports the creation of privately owned and managed investment funds. These funds make direct equity and equity-related investments in new, expanding, or privatizing emerging-market companies. OPIC-supported funds assist emerging-market economies to secure long-term capital, access management skills, and secure financial expertise in order to grow.

Since 1987, OPIC’s funding commitments have totaled $4.2 billion to 59 private-equity funds, which provided capital to more than 450 privately owned and managed companies located across 53 developing countries. Funds are organized by experienced sponsors who raise equity capital.

---

22. Figure represents the number of employees in pay status at the end of June 2011. See U.S. Office of Personnel Management, “Employment Cubes.”

23. See Lawson et al., *State, Foreign Operations, and Related Programs.*
through private placement of equity interests with institutional, corporate, and other qualified investors. Fund managers are typically an affiliate of the sponsor with successful track records in direct-equity investments, portfolio management, and relevant region or sectoral experience.

OPIC-supported funds are organized and structured like other private equity investment vehicles, that is, as limited partnerships or limited-liability companies. OPIC supplements private-equity capital by lending long-term debt (usually with a 10- to 12-year maturity) to a fund.

Ordinarily, OPIC financing will be provided to the fund as a loan in which certificates of participation guaranteed by OPIC (and backed by the full faith and credit of the U.S. government) are sold to “eligible investors” as defined in OPIC’s governing statute. A company meets OPIC’s definition of “U.S.” on the basis of its place of organization and the amount of U.S. ownership:

- For a U.S.-organized entity, it must be at least 25 percent U.S.-owned;
- For a foreign-organized entity, it must be at least majority U.S.-owned.
- In addition, both lawful permanent residents (for example, holders of Green Cards) and U.S.-organized nonprofit organizations meet the OPIC definition.

OPIC will support investment funds if the fund has raised U.S. equity equal to 25 percent of OPIC’s loan support or the fund is managed by a U.S. manager.

Challenges
OPIC has limited instruments at its disposal for program implementation. It has debt and insurance tools, but lacks project-support tools like technical assistance, equity authority, and grant authority. If OPIC could operate as a development bank and access grant mechanisms, it would be able to better advance development goals.

In addition, OPIC is limited by its mandate to help the U.S. private sector gain a foothold in emerging markets. In certain sectors, OPIC struggles to find U.S. investors and thus cannot put funds toward worthwhile development goals because there may not be enough profit potential for U.S. companies to engage in that particular sector. This has been the case in education and agriculture.

Engagement with other U.S. government agencies has been challenging. Movement can be too slow for OPIC, which tries to move at a quicker pace suitable to its private-sector partners. Further, not all agencies use financial leveraging in the same way as OPIC, and as such are not always able to engage in such a funding scheme with OPIC.

Catalyzing Investment in India’s Clean Energy

With an initial loan of $6.2 million in 2009, OPIC funded Azure Power to build India’s largest solar-power plant at the time. Completed in 10 months and comprising 7,560 solar panels, the 2-megawatt plant in Punjab supplied enough clean power for 20,000 people in 4,000 households spread across 32 villages.1 Based on the success of this first project, Azure Power secured financing, partly from OPIC, to build additional 10- and 5-megawatt plants. By supporting Azure Power during its early stages and allowing it to demonstrate the success of its business model, Azure Power was able to attract other investors to the clean-energy sector in India.

---

With respect to interagency communication, OPIC has found coordination most beneficial on a country-by-country basis, rather than across an entire agency or sector, especially since USAID missions and the U.S. Embassies are responsible for on-the-ground programs and usually coordination is conducted project by project. Broad coordination is too difficult and time intensive to establish and maintain. On some occasions, OPIC and another agency’s goals may prove a mismatch, for example, countries benefiting from emergency food assistance may not be high targets for U.S. investments. OPIC has teamed with the Department of State and committed up to $50 million in debt financing and insurance over three years to support the Global Alliance for Clean Cookstoves.

Department of Treasury

Description of Engagement in International Development

The U.S. Department of Treasury leads the United States’ engagement in the multilateral development banks (MDBs), which include the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development.

The MDBs in turn provide financial and technical support to help developing countries strengthen economic policy and management and reduce poverty through a variety of programs and projects. Together, the MDBs help the world’s poorest countries to strengthen institutions, rebuild state capacity, address the effects of climate change, and foster economic growth and entrepreneurship.

The United States’ continued leadership in these institutions is vital in ensuring that it can shape the global development agenda by leveraging its investments to ensure program effectiveness and ground-level impact. For example, due largely to U.S. pressure, a significant component of MDB finances is now administered in the form of grants, breaking the lend-and-forgive cycle that previously hindered development in many countries. U.S. leadership has also led to the adoption of new lending policies that focus on results rather than volumes and reward the strongest performers.

Private-Sector Engagement in Consultation and Operation

The U.S. Department of Treasury partners with the private sector indirectly through MDBs. The United States has personnel in all of the MDBs and from there can work with the private sector. The MDBs consult regularly with the private sector to discuss potential for their engagement in projects. Having U.S. government personnel involved closely in this process is a boon to the U.S. private sector since U.S. officials have a better understanding of the business landscape in the United States. Specifically, officials may alert the private sector to changes in policy and inform them of procurement opportunities.

From within international financial institutions, U.S. representatives advocate for a private-sector role when possible. Within the Group of Twenty (G-20), the United States was behind an effort to leverage private-sector investment, particularly toward infrastructure, in developing economies. The result was the creation of a high-level panel on infrastructure within the G-20 that includes representatives from the private sector. When an international financial institution provides financing to commercially run entities, the United States advocates for a private-sector role as opposed to loans and guarantees going to state-owned enterprises. Especially regarding pro-
Mobilizing the Private Sector for Investing in African Power

In 2008, the U.S. Department of Treasury and the Infrastructure Consortium for Africa hosted an African power symposium in Washington, D.C. African finance ministers, developers of power projects, and financiers were brought together for seminars on attracting private investment in Africa’s power sector. This event highlighted the challenges and opportunities private investors and governments faced in building power infrastructure in Africa.


curement procedures in foreign countries, the United States seeks an even footing on which the U.S. private sector can compete.

The Department of Treasury also reaches out directly to the private sector on an ad hoc basis. Coalitions including private-sector representatives convene to discuss a specific policy, for example, a potential change to procurement rules at the World Bank. Treasury will also engage the private sector in strategic dialogue concerning a specific country, such as China or India. Also ad hoc, Treasury sponsors conferences on issues that will engage the private sector.

The U.S. Department of Treasury is part of an existing interagency consultative body concerned with the activities of the MDBs and the International Monetary Fund. This advisory council consists of members from the Departments of State, Commerce, and Treasury and discusses, among other matters, social and environmental issues, and loans in the MDBs. Treasury can act as a voice for the private sector during council meetings when appropriate.

Challenges

The budgetary process constricts the U.S. Department of Treasury’s extent of private-sector engagement. For example, if Treasury wanted to sign an advanced market commitment, it would not be able to do so because it would have had to budget and procure money for such a partnership ahead of time and held on to the allotted cash. However, the World Bank is not restricted from making such commitments.

Department of Agriculture

Description of Engagement in International Development

The U.S. Department of Agriculture’s Foreign Agricultural Service (FAS) leads the agency’s efforts to assist developing countries to improve their agriculture and build their trade capacity. These efforts strengthen market-driven institutions and science-based regulatory frameworks that facilitate trade and create an environment conducive to agricultural growth.

The nonemergency food-aid programs of FAS help recipients meet nutritional needs and also support agricultural development and education. Food-assistance programs, in conjunction with building trade capacity, support long-term economic development and help countries transition from aid recipient to commercial buyer.

USDA is a domestic agency and all efforts under FAS are required to help U.S. farmers increase their exports. FAS partners with USAID in order to fund training and other development efforts.
Partnering to Sequence the Cocoa Genome

In 2008, the USDA’s Agriculture Research Service, or ARS, began work with IBM and Mars, Incorporated to sequence the genome of the cocoa plant in hopes of allowing more direct breeding of coca plants and possibly higher-quality cocoa. Helping farmers plant better quality high-yield cocoa that exhibits greater resistance to disease and drought can protect an important economic and environmental driver in Africa, where 70 percent of the world’s cocoa is produced.1 ARS performed the sequencing of the entire genome, while researchers at IBM’s Watson Research Center used their advanced computational biology expertise and supercomputing capacity to assemble and study the coca genome. Mars, Incorporated, the world’s largest chocolate company, provided the financial backing and coordination of the project’s efforts. The project was completed in 2010, three years ahead of schedule, and is expected to benefit 6.5 million farmers, including 2 million small-scale farms in West Africa alone.2

signed a CRADA with ASRC Management Services that saw a transfer of innovation and technology to Crop Explorer, a remote-sensing agricultural monitoring tool.\(^{27}\) A CRADA between the USDA and Masterfoods combats cocoa pests and diseases using natural bio-control agents and sustainable crop management.\(^{28}\) Contributions for funding research fellowships devoted to cocoa-related research have been provided by Mars, Incorporated.\(^{29}\)

FAS has staff dedicated to PPPs and is exploring ways to leverage current resources to expand private-sector engagement.

**Challenges**

Agencies within the Department of Agriculture have created partnerships with the private sector. USDA does not have a formal or dedicated office to facilitate or manage PPPs. A position in the secretary’s office to lead and organize private-sector engagement might harmonize and amplify activity across USDA.

USDA has FACA-approved bodies to draw on. For example, seven advisory committees are concerned with trade in various agricultural products.\(^{30}\) While these committees may be called on to engage the private sector on domestic issues, no entities are available or engaged that focus on international development.

**Department of Defense**

**Description of Engagement in International Development**

The U.S. Department of Defense’s (DoD) mission is to provide the military forces necessary to protect the security of the country and deter war. Toward this end, combat operations have always been essential to the department’s purpose. Though DoD has long conducted activities now considered military support of state stability, security, transition, and reconstruction (SSTR), it was not until 2005 that an institutional mandate was created that established DoD policy and responsibility for post-conflict stability operations.

Department of Defense Directive 3000.05 establishes SSTR operations as a core U.S. military mission that “shall be given priority comparable to combat operations.”\(^{31}\) Stability operations are conducted to establish order that advances U.S. interests, and the immediate goal is often to provide security, restore essential infrastructure and services, and meet humanitarian needs. In the long-term, local capacity for providing essential services, rule of law, democratic institutions, a market economy, and a robust civil society are all considered to advance U.S. interests and values.

**Private-Sector Engagement in Consultation and Operation**

Admiral James G. Stavridis, commander of U.S. European Command (USEUCOM) and NATO’s Supreme Allied Commander, advocates a “whole-of-society” approach to maintaining stability and se-

---

29. Ibid.
security. Toward this end, Admiral Stavridis founded the J9 directorate to focus on interagency partnering and the use of private-sector organizations to find and develop solutions to security challenges.

USEUCOM sponsors international workshops and assessment missions where a consortium of private-sector experts from a specific sector (e.g., cybersecurity or energy infrastructure) meet with officials and experts from a partner country and offer specific advice and solutions to enhance security or build capacity.

One significant attempt at engaging the private sector is the FACA-approved Defense Business Board. Though this body brings together approximately 20 private-sector executives to advise on best business practices, its focus is on maximizing DoD’s internal operational efficiency. Some Unified Combatant Commands do make sure to consult and collaborate with external private-sector organizations, however. For example, Business Executives for National Security (BENS) has reached out to USEUCOM to enhance private-public collaboration on security issues.

One effort to engage private-sector enterprises in the economic rebuilding of Iraq and Afghanistan was the Task Force for Business & Stability Operations (TFBSO). TFBSO was created in 2006 to mitigate the economic incentives for insurgencies by revitalizing Iraq’s economy and creating jobs for Iraqis. In 2010, TFBSO began operations in Afghanistan in order to create economic opportunities and curb the economic motivation for violence. In the National Defense Authorization Act for Fiscal Year 2011, Congress approved the defunding and transfer of TFBSO from under DoD to the U.S. Agency for International Development (USAID). It is yet to be seen what the ultimate fate of TFBSO will be, but it looks likely to survive.

Challenges

The Department of Defense must be careful about the extent of contact with the private sector because of the perception of moral hazards associated with the military-industrial complex. DoD cannot solicit the private sector directly; instead, the department must articulate where it has gaps and a

---

32. John Hamre, president and CEO of CSIS, is an ex officio board member of the Defense Business Board.


private-sector enterprise can then offer a solution. DoD’s interactions with the private sector have also been limited by a lack of coherent plans for post-conflict economic recovery. Ideally, a national plan for a post-conflict country needs to be developed by experts that may be outside of DoD and in another agency. In order to facilitate private-sector involvement in economic recovery, the department needs to account for a private-sector role in their planning.

Organization limits the extent of interaction DoD may have with the private sector. Each Unified Combatant Command is responsible for engaging the private sector to the extent that it sees fit. Not only does the perceived benefit of PPPs differ among the combatant commands, but there is a deficit of agreed-upon metrics across combatant command centers for determining what constitutes partnership success.

Effective communication remains a challenge within DoD. Enhanced internal coordination would allow potential private-sector partners to know whom to reach out to. Also, since the impetus for PPPs sits in combatant commands, their priorities must reflect those of the secretary. This highlights a need for greater policy direction from senior officials. Finally, PPPs are not viewed as a must-have to accomplish mission directives and thus are considered by many as nonessential work. A greater understanding across the entire agency of the role the private sector can play would serve to dissolve internal resistance to the concept.

Conclusions and Recommendations

Across a broad range of agencies and in various ways, the U.S. government engages with the private sector on international development efforts. Much of the engagement involves grants and contracts with implementing partners to deliver international development assistance. Some engagement involves partnerships that cross-leverage public and private resources in development programs. Early engagement with private-sector representatives on strategy and program development is less well developed. Collaboration with the private sector on international policy and using the networks, voice, and perspective of the private sector to maximum benefit may require deliberate focus and use of external or interagency advisory mechanisms. U.S. government agencies should avoid duplicating efforts in program activities and relationship management, and combine the unique mechanisms and assets of each agency. Engaging the private sector in more complex and scalable partnerships promises expanded opportunities for meeting the U.S. government’s international-development goals.

Given the number of U.S. government agencies involved in engaging the private sector in international development, coordination is both an opportunity and an imperative so as to harmonize activity, reduce inefficiency, and deliver greater developmental returns. Intragovernmental knowledge management is a primary objective—and could be the aim of a partnership with the private sector to build and maintain a data system useful both within and outside of government in capturing and sharing information on planned, ongoing, and completed public-private international development engagements.

A second objective, beyond information sharing, is leveraging interagency assets. Most often U.S. agencies pursue engagement bilaterally without an agile mechanism or adequate incentives to build partnerships across agencies, focusing each agency’s involvement on its unique expertise, asset, or instrument. U.S. government agencies should proactively build partnerships in collaboration with other agencies to create synergy from their efforts. The Clean Cookstoves Alliance and the Partner-
ships for Growth Initiative are programmatic examples of leveraging “whole of government” engagement with the private sector. Focusing collaboration at the level of project, subsector, or geography is likely to be most tangible and effective. Determining initiation, incentives, and governance of this intragovernmental collaboration will be critical and may be a useful contribution of the Global Partnership Initiative team at the State Department.

An interagency advisory group should be established to allow collective interaction with private-sector representatives on international development. A blended advisory group would serve the advisory needs of several government agencies, not only in the absence of agency-specific “FACA-approved” bodies that constrain agencies from external consultation, but also to provide a platform to bring the voice of the private sector and match it with the ears of the public sector toward international development policy and action. A new body could be housed at the Department of State/Georgetown Public Policy Institute (GPPI) or the National Security Council (NSC); alternatively the existing Advisory Committee on Voluntary Foreign Assistance managed by USAID could be elevated to the interagency level to perform this role.
Holly Wise leads a consultancy practice, Wise Solutions LLC, which brings international development, corporate social responsibility, public-private alliance, and business-development expertise to corporations, foundations, and nonprofit organizations. She serves as a senior associate of the CSIS Project on Prosperity and Development and was a senior fellow at Harvard University’s Kennedy School of Government (2006–2011). She teaches enterprise development and social entrepreneurship at Georgetown University’s School of Foreign Service; sits on the boards of Worldwide Responsible Accredited Production (WRAP), GlobalGiving, Living Goods, FHI 360, Grassroots Business Partners, and CDC Development Solutions (CDS); and is a member of the Council on Foreign Relations.

Ms. Wise spent 26 years in the Foreign Service with the U.S. Agency for International Development (USAID), achieving the diplomatic rank of minister counselor. She is the founder and first secretariat director of the Global Development Alliance, USAID’s business model that forges strategic alliances between public and private partners in addressing international development issues. Under her leadership, 300 alliances were formed with $1.1 billion in USAID funding, leveraging $3.8 billion in private resources for the world’s poor. In addition to overseas tours in Uganda, Kenya, Barbados, the Philippines, and China, she has served as USAID chair at the National Defense University, where she taught political science and environmental courses and published research on China. She is a Phi Beta Kappa graduate of Connecticut College and holds advanced degrees from Yale University and National Defense University.
A REPORT OF THE CSIS PROJECT ON U.S. LEADERSHIP IN DEVELOPMENT

U.S. Government Engagement with the Private Sector on International Development

Author
Holly Wise

February 2012