

A Report of the CSIS Executive Council on Development

Our Shared Opportunity

A Vision for Global Prosperity



Cochairs

THOMAS A. DASCHLE CARLY FIORINA
THOMAS J. PRITZKER VIN WEBER

Honorary Cochair

HENRIETTA H. FORE

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

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CSIS Executive Council on Development

Cochairs

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CARLY FIORINA, *chairman, Good360, and former chairman and CEO, Hewlett-Packard**

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Foreword BY JOHN J. HAMRE



I am often asked why I believe international development is important for America. I have long felt that supporting the growth of strong, healthy societies is a building block to a more secure and prosperous world that will also benefit the United States. U.S. security today is not determined by who has the strongest military or the latest weaponry—in fact, it never was. America won the Cold War because we had better ideas. Strong, democratic, open societies are the goal of billions worldwide. These ideals are even more important today. Our economic dynamism, our exchange of people, and our ideas are shaping attitudes and systems across the globe.

One of the most potent but overlooked forces for good in the world is America's private sector. Our business community, our religious groups, our nonprofit organizations, and our culture of philanthropy represent the finest parts of America and are ambassadors of American values. Our educational system, technological innovation, entrepreneurial spirit, and adherence to law can and should be powerful arms of U.S. foreign policy and development efforts. Armed with the values and capabilities of the U.S. private sector and the resources of our public sector, we can achieve more than we thought possible.

It is time the U.S. government engages the private sector more fully and robustly in tackling the challenges to strengthening developing countries. At a moment when America faces stark choices about our future and the limits of government spending, we need to move beyond the old, partisan battles and vocabularies that divide us and leave behind past political, budgetary, and philosophical debates. Instead, we must unite around the common mission of building better, safer, and healthier lives for people everywhere. We need to find a vocabulary and approach that will unify us to pursue the shared goals of lifting people out of poverty, keeping communities healthy, and supporting countries that cherish the opportunity to improve the lives of their citizens.

This is an agenda that benefits Americans and will do so for decades to come. It is an agenda that Republicans and Democrats, the private sector, and the government can all get behind. ►

Letter from the Cochairs

The United States is at a pivotal moment in our international engagement. Our future global leadership and influence will depend not only on our traditional allies and partners, but also on developing countries and the private companies, nongovernmental organizations, and philanthropic institutions working there. If we embrace these new potential partners, we will see a stronger and safer world, faster growth in developing countries, and a more prosperous America. The CSIS Executive Council on Development—24 leaders experienced in government, business, community service, and philanthropy—believes that foreign aid as we know it cannot leverage the seismic shifts in global capital and investment opportunities and does not fully serve U.S. interests or those of the countries we seek to engage. The Council concluded that the United States can increase the impact of U.S. foreign aid through a blended approach of development, trade, and investment with three straightforward strategies:

1. Place broad-based economic growth and job creation in developing countries at the center of U.S. development and diplomatic policy;
2. Use U.S. development resources and tools to strategically leverage the private sector in promoting development outcomes; and
3. Facilitate wider and more effective U.S. engagement in developing countries by using our trade and finance tools more cohesively.



“*Foreign assistance is a form of preventive diplomacy. If we don’t address economic issues, one day we’re going to have to address them with military intervention.*”

—THOMAS A. DASCHLE

Former U.S. Senate Majority Leader (D-SD)



“ We see huge promise in the developing world. That’s where development is going to happen, and so for us, it’s not only a source of customers and employees, but it also represents the place that the business world is moving to. ”

—THOMAS J. PRITZKER
Executive Chairman, Hyatt Hotels Corporation

Moving to this approach will lift more people out of poverty and create new economic opportunities for the United States. As local citizens gain employment and build job skills, they become entrepreneurs and start small businesses, they send their children to school, they increase their civil participation, they promote structural reforms and democratic institutions, and they consume more U.S. goods and services. Working to make developing countries stronger increases U.S. influence while building a more prosperous and secure world.

In the last six decades, South Korea, Poland, Chile, Colombia, France, Germany, and Japan received substantial U.S. aid. All now have strong, sustainable economies and are major partners in international trade and regional or global security. In addition to the provision of foreign assistance, U.S. international development efforts should promote long-term trade and investment relationships, open and transparent governance, and enduring bonds built on mutual interest. This is American leadership at its finest.

The Council does not suggest that the United States privatize foreign aid. Rather, the United States must leverage private sector investment, talent, and technology to maximize the impact of limited federal dollars. Government will continue to play a critical role in creating the conditions for investment and growth in developing countries. U.S. government agencies, multilateral development banks, and other bilateral donors remain best equipped to help countries build institutions, foster civil society, reform regulations, and promote widespread growth. By reorienting its development strategy around private-sector-led growth, the United States can help countries accelerate their climb from poverty toward relationships built on trade and investment, creating more equal partnerships in the process.



“While the U.S. government has historically played a vital role in development, that role needs to change because the world has changed. Today, the private sector plays a larger role in development than the government. Public-private partnerships are now a necessity.”

—CARLY FIORINA

Chairman, Good360, and former
Chairman and CEO, Hewlett-Packard

While in office, former secretary of defense Robert Gates often said that U.S. development and diplomacy efforts needed to be more robust because we could not rely solely on the military to respond to every crisis. When a young man in Tunisia decided his future was so bleak that he publicly burned himself to death, it was as much an economic statement as a political one. The Arab Spring uprisings, while aimed at repressive regimes, are largely about a lack of economic opportunities. In short, the United States must do more to integrate all types of its power into a coherent force.

We have a far larger and more dynamic set of development tools available than many decisionmakers recognize. High unemployment and lack of economic opportunity are the root causes of many of the world’s gravest security dilemmas. Development aid matched with private-sector investment in broad-based growth can be a promising way to get at these problems. This does not require more federal funds overall, nor does it mean that development will solve all security challenges. However, given the current budgetary uncertainties, now is precisely the time for our government to adopt a more strategic relationship with the American private sector that will best leverage their resources with limited federal dollars to achieve better development outcomes.

It is vital that U.S. investment in the developing world also be configured to protect the environment. Rising incomes and population growth will increase demand for food, energy, water, automobiles, and other manufactured goods. Throughout our development efforts, the United States must promote the strong policies, best practices, and leading technologies we have developed on air, water, land, and natural resource stewardship. Promoting development in a way that addresses environmental challenges from the outset should be a hallmark of U.S. policy and practice.

Our recommendations seek to promote “broad-based growth” where U.S. government and business investment inures to the benefit of as many individuals and families as possible by creating opportunities for people who want jobs, more education,

“ *The developing world is a very dynamic place. The opportunity to leverage commercial involvements, which means jobs and incomes for American citizens and workers, is greater than it has ever been.*

—VIN WEBER

Former U.S. Representative (R-MN)

”



better health, and cleaner environments. U.S. development policy must support each country’s path to growth in ways that are sustainable and inclusive from the outset.

To do so our leaders require clarity of goals and strategy, humility in what we can achieve on our own, and an understanding of what is possible in partnerships between the government and the private sector. They also require greater flexibility with U.S. diplomatic, development, and economic resources to address the core mission of development: to improve people’s lives.

The Council’s belief is that broad-based growth must become core to U.S. development and economic goals, and that we can best achieve these goals by using the knowledge, resources, and skills of the private sector in partnership with our outstanding federal workforce. The United States has the tools, skills, and ambition to develop a stronger, more prosperous, and more secure future for America and the world.

This is our shared opportunity. ►

Executive Summary

American security and prosperity is increasingly and inextricably linked to economic growth in developing countries. U.S. engagement with these countries, long viewed through the lens of foreign aid, is poised to deepen and increase through a large and growing network of trade, investment, and development partnerships. This engagement can improve American lives while reducing poverty in developing countries. The U.S. government and the private sector can and should do more—within current budgets—to accelerate this tremendous opportunity by using existing tools, technologies, and capabilities more effectively.

Over the course of 2012, the CSIS Executive Council on Development, a bipartisan, public-private leadership group, worked to develop an approach for the United States to seize this new global opportunity. The recommendations of this report reflect a strong majority consensus among Council members, but it is not assumed that the members necessarily endorse every finding and recommendation. The Council began with three key assumptions:

- ▶ Private-sector-led, broad-based economic growth is the transformational force in development.
- ▶ Business investment, when done responsibly, can foster growth that creates jobs for many citizens and lifts community living standards.
- ▶ A transparent, accountable, and capable public sector creates conditions that enable private investment that drives development and ensures the resulting benefits are widely spread.

This report puts forward a plan for international development policy where the United States leverages its public funds with private resources, both human and financial, to promote broad-based growth in developing countries and increase U.S. trade and business activity. The old, fragmented way of providing foreign aid, rarely in partnership with others, no longer maximizes results.

The fundamental opportunity ahead is in forging lasting partnerships with developing countries and American businesses that will expand on the building blocks of development—including health, education, and gender equality—to create more jobs, reduce poverty, make governments responsive, and share the benefits of the global economy. Changing the paradigm from a largely government-focused approach to a blend of aid, trade, and investment will not only lead to these outcomes but will also generate greater business opportunities for American companies in countries that are more open, stable, and secure.

For too long, development was undervalued by our foreign- and national-security policy makers as an arm of American power; consequently, they have rarely used it as a lens to view strategic challenges. Although the U.S. government has undertaken a variety of steps over the past decade to elevate development to the

same level of influence as defense and diplomacy it must do far more. It should not only increase development's impact but integrate it fully into American economic and diplomatic efforts by making it truly a pillar of U.S. national security and foreign policy.

Focusing U.S. development assistance on broad-based growth could enable the United States to make foreign aid as we know it today obsolete in 25 years. To achieve this milestone, U.S. development policy must undergo a major shift. This is now possible in ways it never was before for three reasons: more and more countries want to engage with the United States as trading partners and economic peers, not as aid recipients; private-capital flows now vastly outpace official development assistance; and new technologies put economic engagement within reach of even the poorest households. But to succeed, federal agencies and U.S. businesses must work much closer together.

The Council recommends a targeted set of concrete measures the U.S. government and its partners can promptly undertake without new federal funding. Built on three major pillars, the main recommendations include:

1. Make Broad-based Growth the Central Organizing Principle of U.S. Development Policy

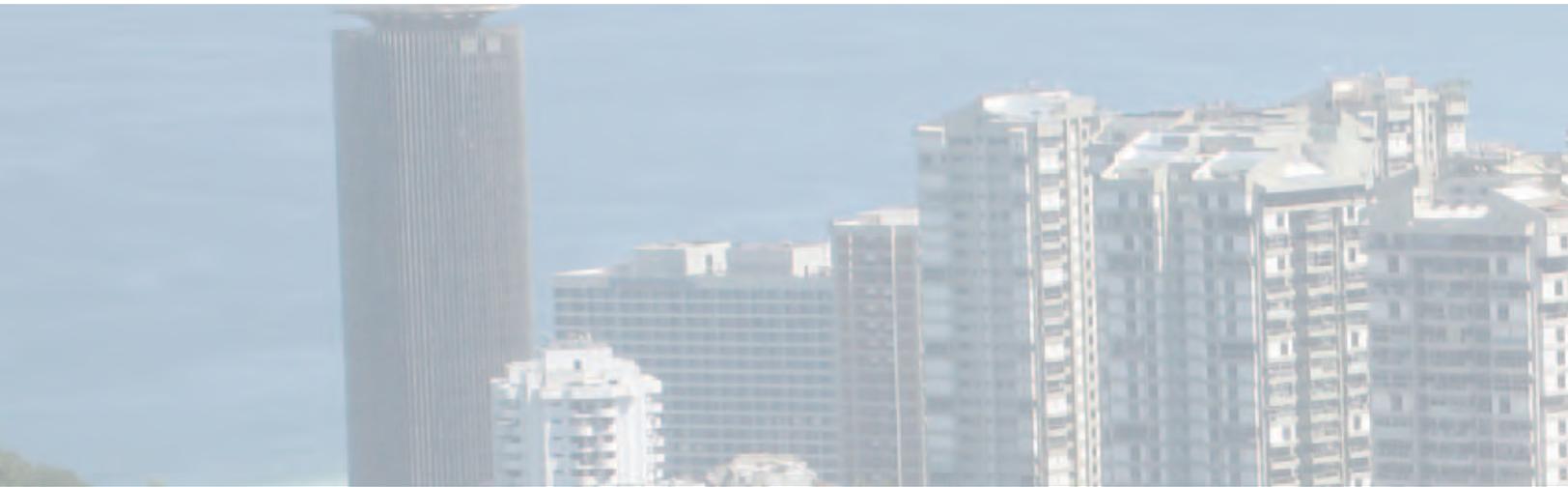
- Develop a constituency for broad-based growth
- Shift \$350 million from other foreign-aid accounts to economic-growth activities
- Promote entrepreneurship through development finance and technical assistance

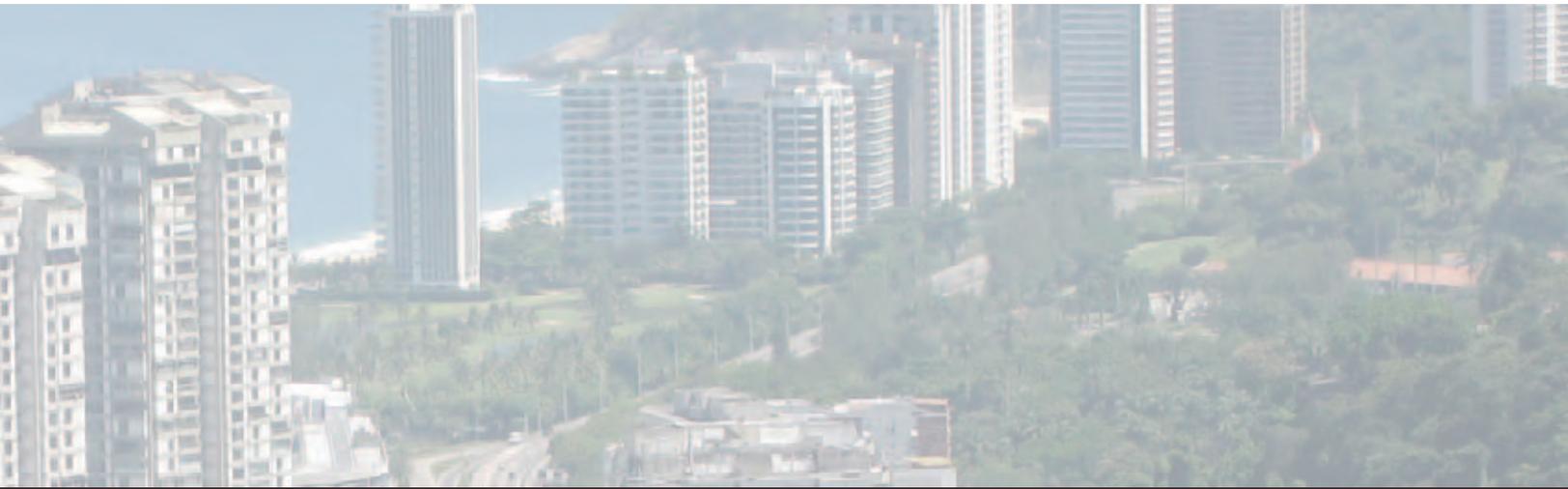
2. Align U.S. Development Instruments with the Private Sector

- Program 25 percent of development agency funds through partnerships
- Simplify and streamline partnership formation, coordination, and planning
- Coordinate early with private partners and plan in-country
- Leverage U.S. business practices, supply chains, and training

3. Promote Trade and Investment Using Existing but Underutilized Tools

- Strengthen existing trade and investment framework agreements and establish bilateral investment treaties with developing countries
- Add a trade capacity-building chapter to new trade agreements
- Increase access to capital for small- and medium-sized enterprises
- Maintain U.S. support to multilateral development banks
- Strengthen and reauthorize the Overseas Private Investment Corporation for the long term





Part I: A Global Transformation



INTRODUCTION: A Global Transformation

The global economic landscape has changed dramatically and irreversibly. In the past three decades, the growth rates of the world's emerging and developing economies have surged, and new patterns of production, trade, investment, and financial flows now challenge traditional conceptions of the “developed” versus the “developing” world. Human capital has expanded, generating increased global talent, connectivity, and acumen. Since 1980, over one billion people around the world have ascended from poverty—the largest number ever recorded. And, since 2000, nearly 50 developing countries have seen an average of 5 percent GDP growth per year.¹ These trends have reshaped the global economy and present a choice for the United States: will the United States seize this opportunity and engage developing countries in a way that is cohesive and forward looking? Or will the United States miss the opportunity to harness the power and dynamism of developing economies?

Over the next 25 years, the United States has the opportunity to work with dozens of developing countries on their efforts to reduce poverty and grow the ranks of the middle class. The power of U.S. foreign assistance can be enhanced through a strategy that blends trade, investment, and development. At no other time in history has U.S. foreign aid made up such a small share of global capital flows. In 1960, public capital accounted for 71 percent of financial flows to the developing world. Today it stands at only 9 percent. Although this aid and U.S. leadership make a tremendous difference in international relations, the private sector, through its flows of capital, technology, and knowledge, has become a vital force in development. With stronger policies and better coordination, federal aid agencies and the U.S. private sector can significantly improve long-term development outcomes.

The U.S. government must make its development policy more creative, flexible, and inclusive of partners. Numerous federal agencies, including the Department of State, Department of the Treasury, U.S. Agency for International Development (USAID), Department of Defense, Millennium Challenge Corporation (MCC), Peace Corps, Overseas Private Investment Corpora-

“It’s time to get past old debates and look at our development activities as an investment in America’s future.”

—ANNE-MARIE SLAUGHTER
Professor, Princeton University, and
former Director of Policy Planning,
U.S. Department of State



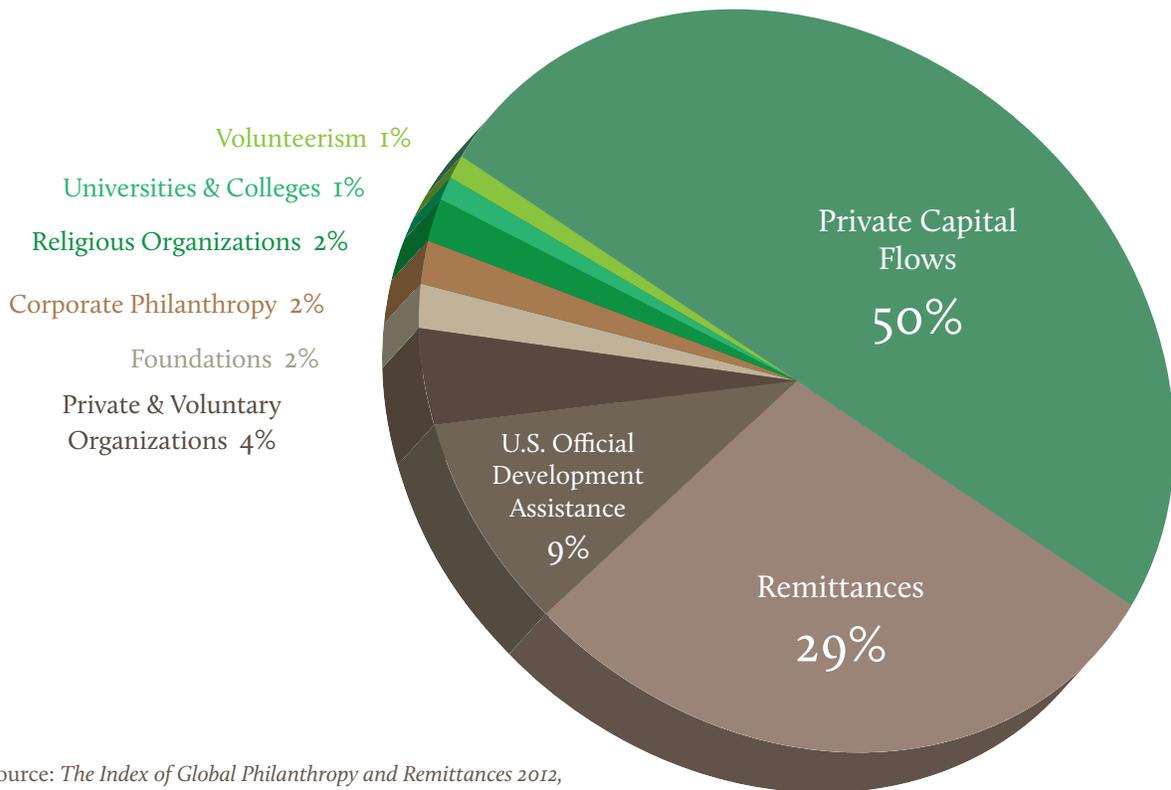


“ Supporting job creation and development overseas also benefits the United States, as a more prosperous world helps in improving our economy and security. ”

—FAROOQ KATHWARI
Chairman, President, and CEO,
Ethan Allen Interiors Inc.

tion (OPIC), Department of Agriculture (USDA), and Office of the U.S. Trade Representative (USTR), all play vital roles in international development. Together, they have a range of tools to promote growth and development. But these agencies and their programs can be better coordinated, and they must better use their organizational capabilities to leverage U.S. business capital, technology, and talent. With a stronger focus on broad-based growth and private-sector-led development, and with more flexible and creative development policy, the federal government can reduce poverty and raise incomes of poor people more effectively while increasing America’s share in future global prosperity. Eighteen of our top-twenty trading partners were once major recipients of U.S. development assistance. If the United States fully partners with the U.S. private sector and host governments in ways that are inclusive and responsible, today’s developing nations will likewise become trading partners, and the United States will gain economic, political, and security benefits that will help ensure American global leadership for decades to come.

U.S. Economic Engagement with Developing Countries, 2010



Source: *The Index of Global Philanthropy and Remittances 2012*, Hudson Institute, <http://www.hudson.org/files/publications/2012IndexofGlobalPhilanthropyandRemittances.pdf>



“Partnerships between NGOs, government, and the private sector are the only way to achieve real development.”

—HENRIETTA H. FORE

Chairman and CEO, Holsman International, and former Administrator, U.S. Agency for International Development

Humanitarian assistance and aid directed toward basic human needs must remain an important part of America’s foreign policy. Building on earlier success, the United States in the last decade has made significant investments in health and education across the developing world. These programs are paying major dividends for recipient countries and making essential contributions to the long-term economic health of each. Nongovernmental and philanthropic organizations have become increasingly effective at mobilizing resources and public support for health and education, and they will continue to play a vital role in development. U.S. leadership in food aid, disaster assistance, and emergencies will remain key American contributions to the global community. This will be particularly true in fragile states, post-conflict states, and the least-developed countries. Furthermore, many of these fragile states continue to present security challenges both on a regional and transnational level. Continuing to find ways to stabilize and ultimately set these countries on the path to sustained growth is vital for U.S. national security.

The U.S. approach to development is beginning to change, but it still does not reflect all the gains of the past 50 years of assistance because it fails to fully pursue new opportunities to create stronger economic bonds that can boost the well-being of citizens in developing countries and the United States. Making development more effective must begin with a shift in mindset. Many Americans only see deficiencies in developing countries, while many government officials hold the private sector at arm’s length and regard corporate actors as secondary or insignificant. Americans must start seeing the citizens of developing countries as the hopeful and healthy consumers they have become, people who want to drink clean water, buy televisions, own cellular phones, and have steady jobs. The U.S. approach—of government, business, and consumers—requires a mindset that sees people’s aspirations, not only their deficiencies. Developing countries want to engage the world as trading partners and economic peers, not as aid recipients. U.S. development agencies must embrace this shared opportunity. To do so, they will need the private sector as a full and willing partner.

Creating jobs and building economies is the path to better development outcomes. To focus the U.S. government’s development programs on this mission will require a serious, high-level commitment, better coordination across many agencies, and an increased focus on harnessing the power of investment. Development is a shared

Strengthening the U.S. Development Architecture

Although no specific model of reorganization is endorsed in this report, it is important to recognize the need to shape the organization of development assistance in a way that will best achieve the goal of reducing poverty through broad-based growth.

The United States has some of the best development agencies in the world. But they were designed when U.S. influence abroad was different and capital flows were primarily public. The goal set out in this report—to make broad-based growth a central organizing principle in U.S. development and diplomatic strategy—will require strong coordination and organization, as well as human talent that understands how the public and private sector can work together to improve development outcomes.

Until now, much of the debate around development has centered on the architecture and organization of the key agencies. The CSIS Executive Council on Development discussed and debated this question at length. The group ultimately decided that its first order of business was to put forward a strong statement about the goals and priorities for development; and that the next step for 2013 and beyond will be to determine how to organize and coordinate U.S. development architecture to achieve those goals.

If broad-based growth is going to be the central organizing principle, the United States needs a workforce, structure, and mission to take full advantage of the trade, investment, business, and development tools available for encouraging that growth. The following is a set of principles and priorities for organizing the development infrastructure to achieve the goals set out in this report:

- ▶ Consolidation of the approximately 20 U.S. government agencies involved in foreign assistance and their overlapping programs and projects.
- ▶ Clarity of mission around one clear, focused goal to promote broad-based growth.
- ▶ Apt personnel equipped with the appropriate skill sets relevant to broad-based growth.
- ▶ Coherent culture of staff, resources, and priorities that is aligned with the organization's goals and objectives for growth.



“ Americans love solving big challenges boldly. Sadly, our foreign assistance programs do not reflect this great American characteristic. ”

—EDWARD D. (NED) BRESLIN
CEO, Water For People



“ The great untold story is the difference being made by millions of hardworking Americans who are giving their time, money, and talent for people they’ve never seen and in places they’ve never been. ”

—MARK GREEN
Former U.S. Representative (R-WI),
and former Ambassador to Tanzania

responsibility that starts with the host country and effectively combines the resources and skills of the donor community, private enterprise, and civil society. However, federal funds and programs are seldom matched with corporate dollars and non-cash resources. The United States can do better by fully deploying its set of existing development tools.

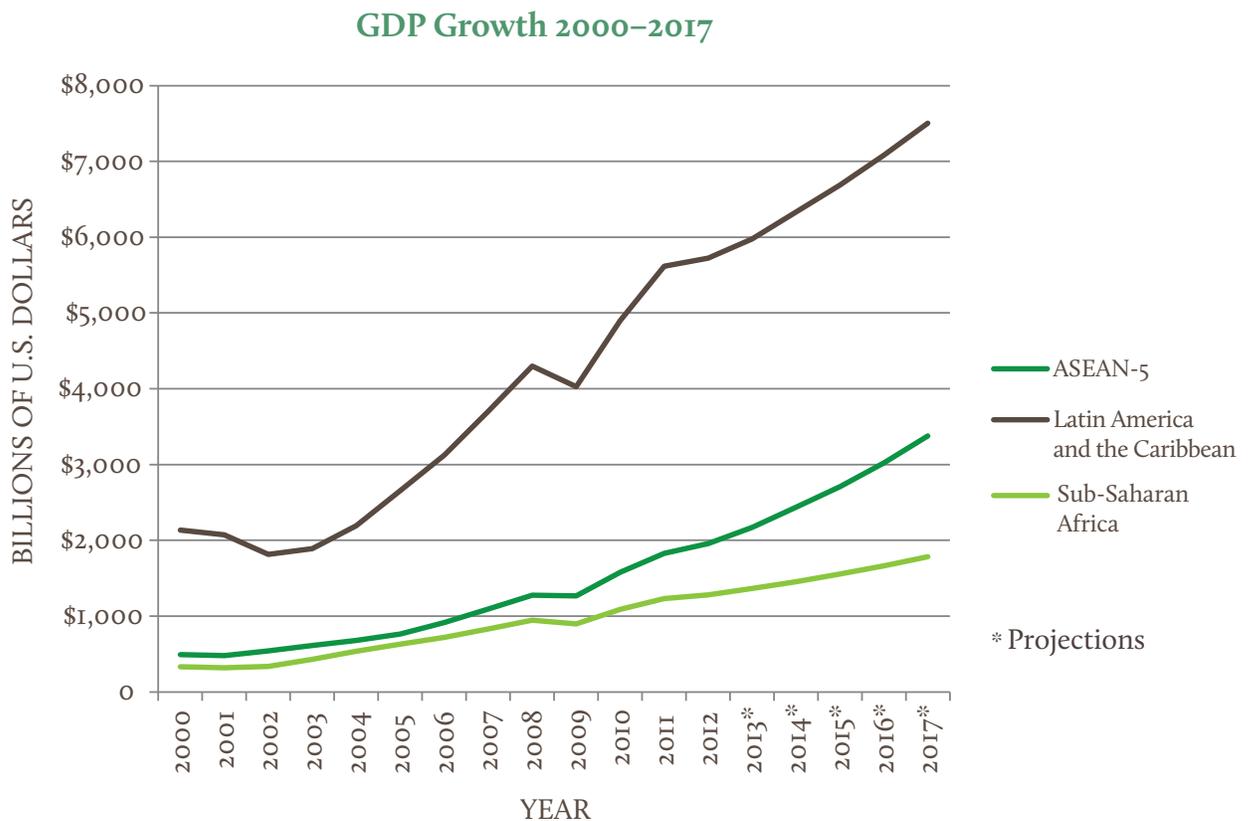
Republicans and Democrats stress the importance of market-led development. The last two presidents have sought to elevate the importance of development to that of U.S. national security and attempted to connect with the business community. The Bush administration, through its national security strategies, placed development at the center of broader U.S. national security and foreign policy.² Under President Obama, former Secretary Clinton and the Department of State have worked to develop economic statecraft, which seeks to use economic policy more fully as a component of U.S. foreign policy. The Quadrennial Diplomacy and Development Review (QDDR) and Presidential Policy Directive on Global Development (PPD-6) from the Obama administration both emphasize the importance of private-sector-led growth in developing countries. The QDDR states, “Economic growth is the single most powerful force for eradicating poverty and expanding opportunity. It transforms countries from development recipients into development partners.”³

The United States must place broad-based growth at the center of its engagement strategy with developing countries. For those poised for rapid growth, such as Ghana, Morocco, and Indonesia, the United States can use trade and investment tools that are more advanced and business-focused. For countries that are fragile, conflict-afflicted, or at an earlier stage of development, the path to a trade and investment relationship may be longer. But U.S. engagement in all countries should work to build long-term economic partnerships by promoting: a healthy and educated workforce of men and women; legal and judicial processes that protect local and international companies; and institutions that will provide service and transparency to citizens, businesses, and organizations. ►

INCOME GROWTH: Improving Development Outcomes

Growing the economies of developing countries and increasing the number of jobs in the formal economy play a transformational role in reducing poverty and promoting development. The 2008 Commission on Growth and Development (also known as the “Spence Report”)⁴ focused on the central role of growth in reducing poverty. It identified patterns among 13 countries that achieved sustained, high growth after 1950: Botswana, Brazil, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Malta, Oman, Singapore, Taiwan, and Thailand. With support from U.S. and other governments’ development agencies, each country grew through a series of reforms that attracted high levels of investment by promoting competition, structural change, exports, industrial policy, macroeconomic stability, financial-sector development, effective government, and equity and equality of opportunity.⁵ Their success shared five common factors: (1) they fully exploited the world economy; (2) they maintained macroeconomic stability; (3) they mustered high rates of saving and investment; (4) they let markets allocate resources; and (5) they had committed, credible, and capable governments.⁶ Growth and poverty reduction in developing countries result directly from new jobs, 9 out of 10 of which are created by the private sector.⁷ Since 2003, foreign direct investment helped create 1.6 million new jobs in Africa alone.⁸ Jobs lead to significant societal improvements: they are the primary factor in moving families out of poverty and foster greater civic participation.⁹

As those 13 countries grew richer, they invested in their citizens’ health, education, and well-being. For example, South Korea saw its infant mortality rate decline 95.6 percent, from 109 per 1,000 live births



Source: International Monetary Fund, World Economic Outlook Database, October 2012

in 1961 to 4.8 per 1,000 live births in 2010, while school enrollment at all levels—primary, secondary, and tertiary—increased dramatically during the same period. South Korea now regularly scores higher in math and science than the United States, enjoys better broadband access, and has the second-highest household income in Asia. Given South Korea’s modern, vibrant, and now-global economy, it is easy to forget that in 1961, the country was largely agrarian and quite poor after suffering a devastating three-year war.



“Jobs provide a way out of poverty and are important for human dignity.”

—THEODORE E. MCCARRICK
Archbishop Emeritus of Washington

A study of 17 African countries that experienced steady growth since 1996 found that greater political stability and market reforms led to increased trade and investment. During that period, foreign direct investment quadrupled, trade increased over 100 percent, average per capita income grew 50 percent, and total annual investment, which more than doubled, now constitutes 25 percent of GDP.¹⁰ Growth has helped improve basic human needs such as health and education: infant mortality has declined in these countries from over 90 deaths per 1,000 live births in 1980 to 66 deaths per 1,000 live births in 2007. Primary-school enrollment in emerging African countries has increased to 80 percent and completion rates reached 72 percent in 2007, compared to 55 percent across other sub-Saharan African countries.¹¹

U.S. development agencies have had notable successes helping countries develop market-oriented economies. Following the collapse of communism in central and eastern Europe, USAID and other development agencies helped transition these countries, many of which had diverted 65 percent of their economic activity to fellow communist nations, to free-market-based economies. Their assistance was instrumental in establishing stock markets, securities regulators, and modern commercial codes. They built trade capacity to link these countries to the global marketplace. And they undertook many other efforts to privatize the economy, support civil society, and improve governance, transparency, and the rule of law.

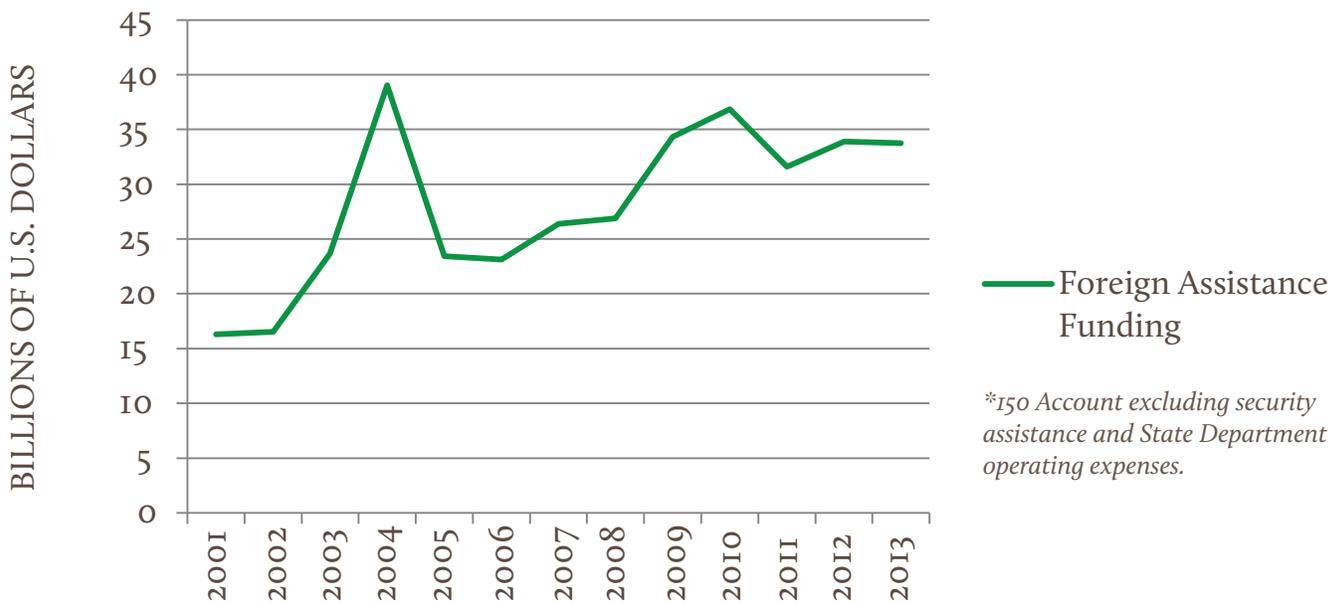
The results have been impressive. Many of these countries are now members of the European Union, NATO, or both. Poland is the sixth-largest economy in the European Union and one of the few countries that did not slip into recession during the 2008–2009 financial crisis. The Czech Republic was the first of the former Eastern Bloc nations to achieve the status of “developed country.” The private sector in Hungary now accounts for 80 percent of GDP.

U.S. SUPPORT FOR GROWTH: LIMITED BUT POWERFUL

Despite the tremendous potential for broad-based growth to reduce poverty and further development, it plays a comparatively small part in the United States’ development agenda. USAID often has the lead role for the U.S. government in executing growth reforms: it, the State Department, and MCC control the vast majority of aid for economic growth, with smaller amounts managed by OPIC and the U.S. Trade and Development Agency (USTDA). The Promoting Economic Development and Prosperity account of the State Department and Foreign Operations budget has seven subaccounts: macroeconomic growth, trade and investment, the financial sector, infrastructure, agriculture, private-sector competitiveness, and economic opportunity. In fiscal year 2013, the Obama administration requested \$3.9 billion for USAID, State Department, and MCC economic-development programs, with 64 percent going to agriculture and infrastructure. Nearly one-third of the total goes to just two countries—Afghanistan and Pakistan—leaving only \$2.6 billion to support all growth activities in the rest of the world. By contrast, the administration requested \$8.5 billion for global health and \$10 billion for peace and security.¹² Savings likely exist in the overall foreign assistance budget that could be transferred to the economic development account. Two recent reports by CSIS and the Center for American Progress’s Center for Global Development found extensive potential savings in aid programs and country budgets that could be used elsewhere.¹³ Directing some of this toward growth activities would be a wise decision.

In the past decade, the United States launched a major agency—the MCC—and several programs including Feed the Future and the Partnership for Growth (PfG), to promote broad-based growth in developing countries. Feed the Future is a whole-of-government approach that focuses on a core poverty-and-growth strategy and seeks to improve agricultural development. Under the PfG, the U.S. government has teamed up with a select number of countries to accelerate and sustain broad-based growth sufficient to create the next generation of emerging markets by implementing President Obama’s PPD-6. By “improving coordination, leveraging private investment, and focusing political commitment

U.S. Official Development Assistance



Source: <http://www.foreignassistance.gov>

YEAR

throughout both governments, the PfG enables partners to achieve better development results.”¹⁴ Working with El Salvador, Ghana, the Philippines, and Tanzania, the PfG aims to promote multisectorial cooperation in developing five-year Joint Country Action Plans. These plans are intended to promote jobs and growth through investment from the private sector. In these four countries, the plans address rule of law, land tenure, competitiveness, personal security, power and energy gaps, access to credit, and rural roads.¹⁵ Implementation of the PfG remains nascent, with the El Salvador pact furthest along. Enhancing these pacts and producing measurable results could help make the PfG a model for future U.S. development efforts promoting broad-based growth.

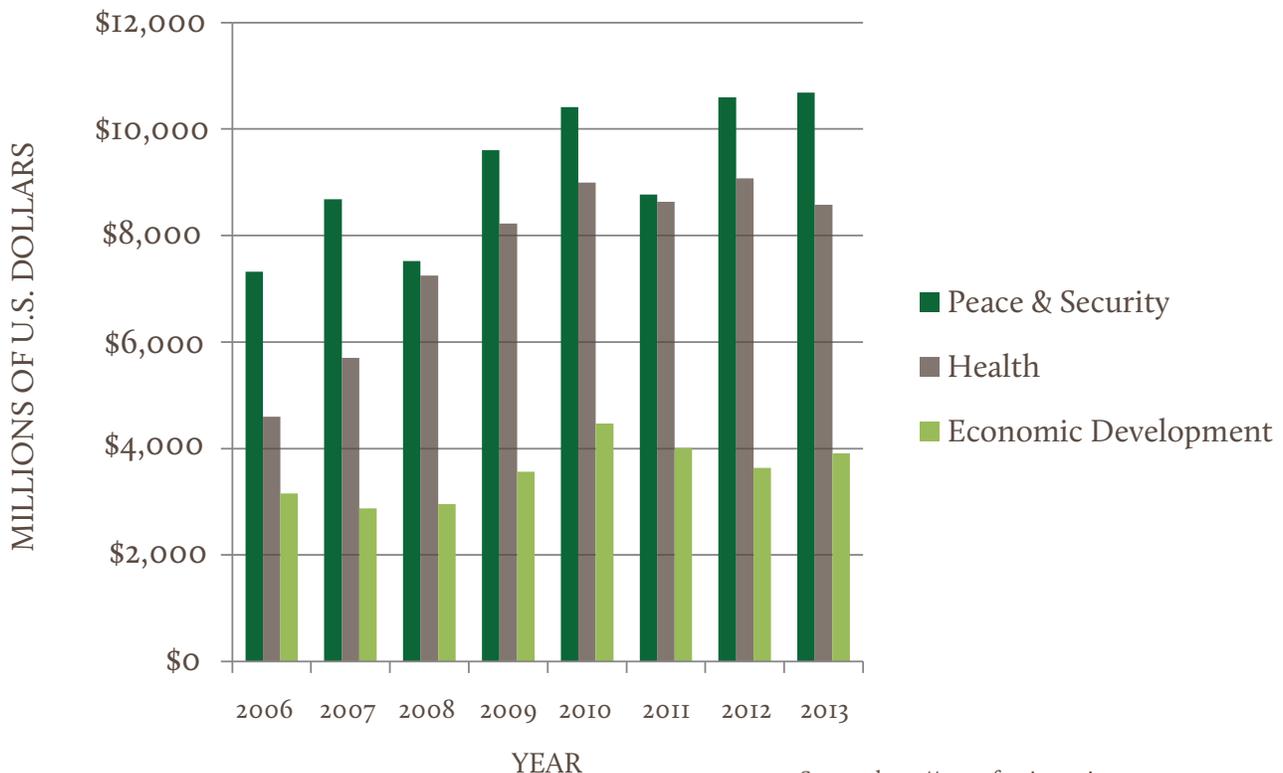
Both Feed the Future and the PfG build on the framework and principles of the MCC. Created in 2004 and governed by a board that includes senior U.S. government officials and corporate executives, the MCC works with countries committed to making governance and economic reforms by establishing multiyear compacts targeting key constraints to growth. The MCC’s constraint-to-growth analyses, which the PfG and Feed the Future also employ, have shown that developing countries wanted develop-

ment funds invested in public infrastructure, including seaports, airports, roads, and city sanitation. The compacts have also tackled capacity and governance challenges. Indonesia, for example, is using \$50 million of its five-year, \$600 million compact to expand the capacity of its government procurement system and improve system transparency. The MCC deals primarily with well-performing countries, but it is still working to consult and integrate U.S. businesses and organizations into its planning and implementation processes and thereby maximize the leverage of its investments.

THE VALUABLE ROLE OF MULTILATERAL DEVELOPMENT BANKS

The United States can also look to multilateral development banks (MDBs) to support, and, in some cases, lead the growth agenda. Each dollar the United States provides to the International Bank for Reconstruction and Development, for example, allows it to provide thirty dollars in new lending.¹⁶ The United States remains the largest shareholder in the World Bank, the Asian Development Bank, and the Inter-American Development Bank, and it is the second-largest shareholder in the African Development Bank. These are

Foreign Assistance Accounts



fundamental institutions that help shape the world to reflect the values of broad-based growth and transparent, accountable governance. In 2011, the U.S. Congress supported the first general capital increase (GCI) in 20 years for the MDBs: \$2.17 billion in new capital spread over a three-to-eight-year period.¹⁷ U.S. financial support for the MDBs should translate into significant influence for the United States over their direction. Beyond lending and the GCI lay other opportunities for the United States to deepen its relationship with the MDBs and strengthen development efforts across the world. For example, their work on anticorruption and transparency throughout developing countries complements the work the United States has undertaken. The bipartisan support for the 2011 GCI sent a strong message that the United States wants to maintain its leadership in the MDBs and continues to see them as a powerful multiplier of its own development policies.

POLICY REFORMS MUST BE COUPLED WITH INSTITUTION BUILDING AND EXPANDED ECONOMIC OPPORTUNITY

Policy reforms are playing important roles in advancing broad-based growth. One prominent example is the annual *Doing Business Report*, jointly prepared by the World Bank and the International Finance Corporation (IFC). This report measures 11 areas of business regulations governing domestic firms in the formal economy, primarily small- and medium-sized enterprises (SMEs). USAID played a critical role in launching the report, including providing funding and one of two sources for its methodology, which grew out of USAID's *Investor Roadmap* studies, conducted in partnership with the World Bank's Foreign Investment Advisory Service. USAID also helped fund the report's subsequent expanded coverage of indicators, countries, and different types of analytical products.

The World Bank has seen the report help countries identify key regulatory and policy reforms to improve their overall business climate and then share such reforms. Saudi Arabia, for example, decided to use French company law as a model to reform its own statutes. Since issuing the first report in 2002, the World Bank and IFC have found that countries have made the most progress in reducing the complexity and cost of their regulatory processes, while the least change has taken place in strengthening legal institutions, such as contract enforcement, investor protection, and insolvency resolution.¹⁸ Efforts in these areas need to expand to improve the rule of law and the capability of governing institutions in developing countries in order to attract trade and investment.

As useful as regulatory reforms and resulting investments are, they must be grounded in a wider effort for development to succeed. A report by the International Monetary Fund recently explained the limited societal benefit of reforms Egypt undertook: "During the second half of the past decade, Egypt experienced accelerated growth following reforms that stimulated investment. However, social outcomes were unsatisfactory as unemployment remained high, double-digit inflation eroded household incomes, and privatization was perceived to have benefited only a few."¹⁹ Before the Arab Spring uprisings began in Tunisia, the country saw increased local and foreign investment, but the benefits went only to a corrupt elite who were closely connected to the ruling party. Leading economists such as Douglass North have cited this challenge for many years explaining that in developing countries, elites frequently divide much of their country's wealth among themselves to the exclusion of the vast majority of the citizenry.²⁰ Both countries were well regarded by the *Doing Business Report* in the years leading up to 2011. Egypt was listed as a top-ten reformer in 2008, 2009, and 2010. It moved from a rank of 165 in the 2007 report, near the bottom of the list, to 94 in the 2011 report.²¹ Economic-growth programs cannot simply remove barriers to business: they must also expand the middle class by reducing poverty while maintaining protection for the vulnerable.

Creating an economy that expands opportunities to the broadest swath of society requires strong institutions that can support and foster future growth. In its 2012 "Prosperity Index," the Legatum Institute highlighted the success Botswana and Costa Rica have had doing just that. Both countries have built strong democratic institutions that

Investment Climate Facility for Africa: Modernizing the Judiciary in Zambia

The Investment Climate Facility for Africa (ICF) partners with governments, businesses, and donors to overcome barriers to investment in African countries.

The ICF is a seven-year initiative that grew out of the Commission for Africa's 2005 report *Our Common Interest*, which supported the U.K. Department for International Development's proposal to establish a facility that identifies and helps overcome barriers to investment in Africa. The board is cochaired by E. Neville Isdell, former chairman and CEO of The Coca-Cola Company, and Benjamin Mkapa, former president of Tanzania. The board guides ICF in its implementation of practical steps for better business across the continent. ICF focuses on promoting eight activities key to fostering greater private-sector investment: (1) property rights and contract enforcement; (2) business registration and licensing; (3) taxation and customs; (4) financial markets; (5) infrastructure facilitation; (6) labor markets; (7) competition; and (8) corruption and crime.

In December 2008, ICF signed an agreement with the government of Zambia to improve the efficiency and accuracy of the country's court system. At that time, the World Bank's *Doing Business Report* stated that it took at least 471 days for a contract to be enforced in Zambia.²² Such inefficiency can reduce investor confidence in a country's ability to resolve disputes and enforce contracts. To improve the speed and capacity of Zambia's judiciary, ICF has worked alongside the Zambian government to improve the infrastructure, modernity, and staff of the court system. The project primarily sought to computerize and automate court procedures while moving the manual system to a digitalized one.

The ICF has worked in conjunction with the Bankers Association of Zambia, the Zambia Chamber of Commerce and Industry, and the Zambian Law Society to complete the project in two phases. The \$4.9 million program began with the Supreme, High, and Magistrate Courts in Lusaka, and eventually expanded to include the districts of Ndola and Kitwe in the Copperbelt region.²³ The ICF has focused on updating equipment, training and hiring staff, and implementing formalized procedures. To date, three courts in Lusaka have undergone ICF reforms; and 14 judges, 38 support staff and clerks, and 10 court reporters have received training in new procedures and technology.²⁴ It now takes just three days to have a contract enforced—enhancing investor confidence and the ability of SMEs to compete.²⁵

The steps taken to modernize the Zambian court system support ICF's broader mandate to strengthen investor confidence by demonstrating a country's commitment to a transparent, efficient, and accountable investment climate. In August of 2012, ICF facilitated a workshop in Lusaka to showcase Zambia's progress and share knowledge on commercial justice and integrating technology into the courtroom. ICF is now implementing similar reforms in nine other countries, as well as in two regional blocs.²⁶

have made critical investments in infrastructure, education, and health, which helped spur economic growth. Costa Rica strategically sought investments in high-technology manufacturing from Motorola, Microsoft, and Intel. High-tech products now account for 40 percent of Costa Rica's manufacturing output.²⁷ In addition to building functioning institutions, Costa Rica also aligned its resources to attract investment by meeting specific vocational and infrastructure needs of potential investors.

In Africa, where an estimated 70 percent of workers²⁸ are employed in the informal economy, growth in the formal economy is vital because it generates taxes that governments use for public services, infrastructure, and other national development efforts. Tax revenue continent-wide grew from \$140.8 billion in 2000 to \$416.3 billion in 2010, much of this from foreign business investment, and eight times larger than the total foreign aid received that year.²⁹ By moving more jobs into the formal sector and improving tax collection, countries can increasingly pay for their own development.

The Value of Promoting Entrepreneurship

Another way societies can foster private-sector-led growth, especially via small businesses, is by promoting entrepreneurship. The Gallup *World Poll* recently found that 29 percent of men aged 25-35 in Africa plan to start a business in the next 12 months.³⁰ The Obama administration has sought to increase attention on the powerful role that entrepreneurship can play in advancing a country's development. In 2010, the Department of State led a series of activities to promote entrepreneurship, launching the Global Entrepreneurship Partnership to promote economic recovery in the developing world, especially in the Middle East and North Africa. This was an important step, but far more can be done. The business community can provide a great deal of assistance just through its normal business operations. Coca Cola, for example, trains women entrepreneurs and business owners to serve as distributors and marketers for its products. Host governments can support entrepreneurship by tackling corruption in the permitting process; increasing access to affordable financing; making the rules to launch a small business simpler, more transparent, and less bureaucratic; and expanding access to regional and international markets. ►



“ *Institutions are central to prosperity. America has led the way and has an essential role to play in building that capacity.* ”

—ANDREW S. NATSIOS

Executive Professor, Texas A&M University, and former Administrator, U.S. Agency for International Development



“ *New approaches to eradicating extreme poverty and inequity that include the private sector in partnership with governments and NGOs hold real promise for sustainable solutions. Putting empowerment of women as core to development efforts is key.* ”

—HELENE D. GAYLE

President and CEO, CARE USA



Women and Girls: Closing the Gender Gap, Expanding the Economy

A Case Study

Investing in reforms that encourage, educate, and finance female entrepreneurs promotes broad-based growth and improves development outcomes.

Failing to engage women in the formal economy has real costs, with some reports estimating that a gender gap can restrict a developing country's national GDP by up to 16 percent.³¹ Although women have increased their economic participation, opportunity still lags well behind that of men and stunts the full potential of a nation. The economic gender gap results from converging factors, including outdated institutional and regulatory processes; limited access to financing; insufficient or irrelevant education or training; and demanding household obligations.

The number of females holding a job has increased by over 500 million in the past 30 years,³² and women are establishing businesses at a higher rate than men in many emerging economies.³³ Yet even though women make up 66 percent of the world's labor pool, they earn just 10 percent of global income, and they own just one percent of the land.³⁴ Although women own between 31 and 38 percent of SMEs in emerging markets, their enterprises grow at a slower rate than their male-owned counterparts,³⁵ and they make up a disproportionate amount of microenterprises.

Increasing access to financing that allows women entrepreneurs to grow their businesses and hire more employees is a smart investment for broad-based growth. The World Bank argues that women exhibit more conservative investment behavior and lower moral-hazard risk, which leads to higher repayment rates on their loans.³⁶ Nevertheless, women continue to encounter higher interest rates, more demanding collateral requirements, and cultural bias.

In a recent study by the IFC, 102 out of 141 countries had at least one legal obstacle that stood in the way of full economic opportunity for women.³⁷ Addressing such challenges and creating an enabling environment for women can bolster economic activity. Reforms that target women-specific challenges to entering the formal economy—modernizing land rights, for example, or creating fair access to credit—can empower more female entrepreneurs and workers. Labor productivity can increase by 25 percent in countries that remove barriers obstructing women from certain occupations.³⁸

There has been great progress made in improving the economic conditions for women and strengthening their communities around the world, but much remains to be done to close the gender gap. The economic, political, and social empowerment of women in developing countries should continue to be at the forefront of U.S. development policy and efforts. This will have a profound effect on the growth, stability, and security of these countries.

THE PRIVATE SECTOR: Investment in Developing Countries Lifts Living Standards

The U.S. private sector is a major contributor to international development and should be seen as such. Businesses have expanded their approach to development, focusing more on connecting their social investments to core business operations, and seeing their success as an outcome of the health and success of the communities where they operate. Nongovernmental organizations (NGOs) now work regularly with American companies to develop programs that promote growth and reduce poverty. U.S. foundations have led the world in funding and innovating many development activities and policy changes, particularly in health, education, and agriculture.

With a large and growing stake in the success of developing countries, many U.S. companies see their future growth as dependent on rising standards of living. Through their investments, business practices, standards, and philanthropic activities, these companies have become change agents in expanding economic opportunities and improving living standards. More U.S. businesses are designing their operations to contribute to the long-term success of the local communities. Many have partnered with international NGOs and the U.S. government because they cannot accomplish these goals on their own.

THE POWER OF PHILANTHROPY

The philanthropic community plays a unique and important role in promoting development, encouraging reforms, growing civil society, and bolstering government development efforts. Its total spending is not nearly as large as official development assistance (ODA) or private flows of capital, but it has significant impact because it can identify challenges and address them more quickly and nimbly than government agencies. In recent years, philanthropic actors have grown in significance as funders,



True human development cannot be reduced or separated into component economic, social, political, and environmental parts. Companies, NGOs, philanthropies, and governments must integrate their core strengths to create new solutions that advance the well-being of individuals and all of society.

—CAROLYN Y. WOO

President and CEO, Catholic Relief Services



Public and private actors outside a nation can only be effective if the people with power inside the country want inclusive economic growth and inclusive, legitimate institutions.

—BENJAMIN W. HEINEMAN JR.

Senior Fellow, Harvard University
Schools of Law and Government

policy advocates, and conveners. The Bill & Melinda Gates Foundation, for example, spent \$2.3 billion in 2010 on global health and agricultural development. Compare that to the \$2.6 billion the United States spends on economic development in all other countries outside of Afghanistan and Pakistan. It played a prominent role in the policy discussions that recognized agriculture—the leading component of most developing-countries’ economies—as a major priority for poverty reduction. The growth of foundations’ financial and intellectual capacity means that they now occupy a prominent seat at the development table.

NGOS AND OTHER DEVELOPMENT PARTNERS

NGOs have long been involved in development work. Beginning in the 1990s, however, their role began to change dramatically from local program providers to principal development practitioners. Due to federal budget cuts and policy debates, USAID looked to others to implement development projects. NGOs and for-profit development implementers quickly filled this need. Many people are unaware that much of the actual work of development is done by these groups. NGOs are increasingly sophisticated and far-reaching. As with foundations, they bring extensive advocacy and policy skills to the mix. The capacity and effectiveness of these groups is essential to strong development outcomes. Large international NGOs and for-profit implementers will be especially important in developing the capacity to localize implementation—something that should be increasingly prioritized in the future. This broad network of partners can help carry out localized development activities such as health, training, education, and agricultural activities, which will only enhance broader U.S. development efforts.



NGOs: A Critical and Changing Role in the Development Ecosystem

Two Case Studies

Today, NGOs such as Catholic Relief Services (CRS) and CARE play a key role in brokering and implementing the development activities of private companies.

NGOs play a vital role in implementing the economic-growth activities of other development actors, including multilateral banks, donor nations, and, increasingly, private companies. NGOs have long been important actors in delivering humanitarian assistance and other traditional development activities. Over the past two decades, many NGOs have reconsidered the role the business community plays and have evolved their approach to one of strategic partnership. Today, a growing number of NGOs leverage the financial and technical resources of these companies and provide the “last mile” of work necessary to bring development projects to fruition.

As private companies began to integrate development activities into their business models, NGOs became an important ally because of their local knowledge and reputation. NGOs often have long-standing relationships with the communities in which businesses seek to operate, and they can effectively convene and work with community members. Faith-based organizations especially have deep connections in areas where religious institutions have strong credibility. At the same time, NGOs benefit greatly from closer relationships with private companies. Businesses can often provide reliable and substantial funding to NGOs as well as unique expertise and innovation that can help actualize mutual goals.

For example, in 2008, CRS partnered with Jollibee Foods Corporation and its philanthropic arm, the Jollibee Foundation, to strengthen the company’s agricultural supply chains. Jollibee owns the largest fast-food chain in the Philippines,³⁹ with a growing demand for raw inputs, including onions for its burgers. To secure a more stable and efficient supply of its ingredients, Jollibee sought to increase its volume of locally-sourced vegetables. CRS had a history of working with small farmers throughout the country and worked to equip farmers with new techniques, marketing strategies, and credit access to help successfully produce and sell onions that met Jollibee’s quality standards. Through the formation of onion-farm clusters, CRS empowered local leaders to negoti-

ate directly with corporate representatives for competitive prices of their onions—which can produce nearly 30 times the profit of corn.⁴⁰ Today, Jollibee purchases 10 percent⁴¹ of its onion supply from Filipino farmers who, in turn, have benefited from higher incomes which can be used to pay off loans and invest in their children's education.

In 2007, the popular clothing brand Gap Inc. and humanitarian organization CARE came together in a different type of partnership. Recognizing the opportunity to improve the lives of female garment workers while improving vendor efficiency, Gap Inc. launched the Personal Advancement & Career Enhancement (P.A.C.E.) program in seven south-Asian countries. CARE serves as the key implementing partner in four countries, facilitating technical- and life-skills trainings for female workers in Gap's sourcing factories. Through an eight-to ten-month program, women gain skills in basic literacy, health, communications, problem-solving, and financial management. Over the last seven years, 12,000 women have successfully completed the P.A.C.E. program.⁴² Graduates have gained the confidence and communication skills necessary to move into more senior and managerial roles within factories. Their employers have financially benefitted as well from lower absenteeism, higher worker retention, and higher performance efficiency. By investing in female garment workers, Gap Inc. and CARE have not only improved the efficiency of vendor facilities but also the lives, families, and communities of P.A.C.E. women.

By leveraging their respective strengths, private companies and NGOs can and are partnering to bring about development outcomes, whether through corporate philanthropy or strategic social investments. Such partnerships between these once-strange bedfellows simultaneously bolsters a business' bottom line while fulfilling the humanitarian mandate of an NGO. Today, NGOs continue to be important players in the development landscape in their own right. But they are also key partners to companies in brokering, designing, and implementing development initiatives.



“*The days of the pure pursuit of profit are over. Total, meaningful engagement with society is now essential for long-term sustainability of companies.*”

—E. NEVILLE ISDELL
Former Chairman and CEO,
The Coca-Cola Company

CORPORATIONS AS DEVELOPMENT ACTORS

Traditionally, U.S. businesses measured their development impact narrowly through the prism of their social investments—corporate funds and manpower to promote worthy causes and improve the communities in which they worked. Companies consider such efforts important for branding, enhancing corporate reputation, and maintaining positive relations with local communities and governments. But social investments are not the primary mission of business.

The “business case” for corporate focus on development lays at the intersection of development activities and core business operations, and it is constantly evolving.⁴³ For most U.S. companies—especially in the extractive, financial services, telecommunications, consumer goods, and agricultural industries—there are three bottom-line reasons to promote development: (1) market access; (2) improved operational efficiency; and (3) a more secure operating environment. With rising numbers of consumers and operations in developing countries, more American companies, through their normal operations, are engaging in business activities that concurrently promote development: they seek out suppliers and buy goods and services locally; they implement good management practices and impose high standards; they conduct training and transfer technological skills that build a local workforce; and they create local jobs that provide long-term opportunities. They increasingly understand the strategic, long-term interest in operating with an eye toward development outcomes. To grow in new markets, these businesses must become adept at navigating in environments with less-developed human and physical infrastructure. This includes modifying existing products or creating new ones that can penetrate markets and appeal to lower-income consumers.

Beyond Corporate Philanthropy: Abbott's Social Enterprise to Advance Nutritional and Economic Opportunity in Haiti

Abbott Laboratories is leveraging its food and science expertise to create a sustainable model for the NGO Partners In Health (PIH) and to assist in the provision of a nutritional food supplement.

The healthcare company Abbott Laboratories has been engaged in Haiti's health challenges for years, giving over \$55 million in grants and products since 2007 alone.⁴⁴ Seeking to move beyond philanthropic giving and engage in a more-sustainable social investment, Abbott and the Abbott Fund have collaborated with PIH to build a social enterprise that simultaneously combats malnutrition and builds economic opportunity in Haiti.

Leveraging their resources and technical skill, Abbott is working alongside the health experts of PIH to expand the production and distribution of Nourimanba, a peanut-based, ready-to-use food supplement made from milk powder, vegetable oil, sugar, various vitamins, and Haitian-grown peanuts. PIH has deep roots and credibility in the region and has been using the Nourimanba paste to treat childhood malnutrition for about six years.⁴⁵ Now, the Abbott Fund is committing \$6.5 million⁴⁶ to expand production of Nourimanba and using the time and expertise of more than 50 Abbott employees with backgrounds in food science, engineering, sales, and marketing.⁴⁷

Abbott's primary project is the construction of a new Nourimanba facility, which has employed local construction workers and used local raw materials, setting the stage for increased production and distribution. The new plant is expected to enable PIH to distribute the high-calorie and high-protein food supplement to 50,000 kids per year, five times the impact of the original setup.⁴⁸ Abbott is also using its expertise in product safety and nutritional science to improve the production process, enhance the Nourimanba formula, and improve its local-sourcing footprint. Through its provision of technical expertise, Abbott is also indirectly transferring Western management and finance practices to local suppliers; training suppliers and employees on quality standards and safety requirements; and demonstrating environmentally-sound development practices.

Together, Abbott and PIH are building economic opportunity for this long-impooverished country. The new Nourimanba facility will employ around 50 Haitians and create opportunities for over 200 peanut farmers to sell their crops. In early 2013, the facility will also begin production of regular peanut butter for commercial sale, targeted at middle- and upper-income consumers in the country. Such sales will enable the sustainability of the Nourimanba project while allowing PIH to continue providing the paste free of charge as Abbott expands economic opportunities for more farmers and workers. To Abbott, its work in Haiti is an investment that extends beyond philanthropy and creates promising sustainable development for the country.



“*Abbott’s business operations are one of our greatest contributions to development, which have created new sustainable opportunities for businesses and emerging economies. Governments and stakeholders often look to our philanthropy as our primary contribution to development and while important, it simply can’t compare to the long-term impact made by our business.*”

—KATHERINE PICKUS
Divisional Vice President, Global
Citizenship and Policy, Abbott,
and Vice President, Abbott Fund

Building Supply Chains that Buy Goods and Services Locally

The impact of building supply chains for locally-produced goods and services can be far greater than social investment budgets. The amount that Chevron, for example, devoted to social investment worldwide in 2009 was \$144 million,⁴⁹ but in Angola alone it invested approximately \$1.1 billion⁵⁰ in Angolan-owned businesses through the local procurement of services and materials. Host governments are eager to tap into these funds to help grow their economies, seeing the demand it creates from local suppliers of products and services. Sole proprietors and small firms that become part of a U.S. business’ supply chain can grow, not just from the revenue stream but also from project-management skills acquired to meet supplier requirements of high standards, consistent quality, and timely delivery of goods and services. Large multinational companies also serve as markets for local entrepreneurs catalyzing both household- and national-income growth. Thus, corporate investment generates a multiplier effect through job creation well beyond project-specific investment numbers.

For example, SABMiller is the single-largest employer in South Sudan, and one of the major contributors to the economy. In 2007, the company made a strategic decision to expand into this new market by investing \$37 million to construct a brewery, followed by \$15 million in 2011 to scale up production. SABMiller also secured \$1 million from the African Enterprise Challenge Fund—funded by several development agencies, including the U.K. Department for International Development (DfID)—to develop ways to source cassava locally as a substitute for imported barley. The goal is to ultimately bring 2,000 local smallholder farmers into SABMiller’s supply chain within three years. SABMiller has drawn several valuable lessons from this experience, including that a thriving business relies on a thriving society, local environments require local innovation, leveraging value chains can maximize development impacts, and partnerships are at the heart of project implementation.⁵¹

Instilling Good Management Practices and Global Standards

The basic operating processes used by companies are not often considered development tools. But U.S. standards and practices for business management and manufacturing are world-class and build valuable skills and expertise for local suppliers and workers. Some of the most significant include transparent accounting practices; food safety standards and compliance procedures; on-the-job training programs for workers; modern management techniques; and manufacturing processes to produce products that are of high quality, meet

international safety standards, and increase efficiency in water and energy use. These skills and standards not only improve the specific industry concerned; they can also have spillover effects on related business and ultimately help improve the local business climate sufficiently to attract additional foreign investment.

The global health care company Abbott, for example, devotes significant resources to build capacity around distribution and logistics, promote short- and long-term planning processes, train a local workforce, and impose safety and quality standards throughout its markets, including developing countries. Abbott invests in its local suppliers to ensure that they can consistently meet Abbott’s standards. To support a new nutritional-product manufacturing investment in India, for example, Abbott is working to qualify dairy suppliers through programs that often begin at the farm and can include farmer education, veterinary and testing services, feed assistance, and even financial assistance to expand herds. Abbott also disseminates best practices in food testing, including quality assurance and analytical techniques. The transfer of these skills and practices not only builds worker expertise and enables local companies to qualify as Abbott suppliers; it also helps expand their business opportunities with other customers, thereby enhancing their growth and the competitiveness of the local economy.

Developing a Local Workforce

U.S. companies often face challenges in recruiting and developing local workers with adequate technical and language skills. Workforce-development strategies are of growing importance to businesses operating in developing countries as demand for workers increases. At the same time, they can significantly strengthen indigenous talent and expand human capital. Many companies have turned to NGOs and partner organizations to develop innovative training programs and approaches to meeting local-workforce legal obligations.

Companies engaged in developing markets, particularly in the extractive industry, encounter local-content or



“ *Creating environmentally sustainable supply chains and distribution systems is critical to our business success and has an important role to play in community development.* ”

—BEA PEREZ
Chief Sustainability Officer,
The Coca-Cola Company

“ *Society expects business to be at the table with the full array of business resources helping solve social problems.* ”

—PAULA LUFF
Vice President, Corporate Social Responsibility, Hess Corporation



sourcing requirements—meaning they are required by national law to purchase services or supplies from local businesses. But meeting these requirements in areas where local businesses do not meet quality, quantity, or safety standards can be challenging. U.S. corporations have launched several innovative and effective training- and workforce-development programs to meet local-content requirements. In Angola, for example, a group of international oil companies—BP, Chevron, Total, and Esso—partnered with the Angolan state oil company, Sonangol, and the Angolan Ministry of Petroleum to create the Centro de Apoio Empresarial (CAE), an enterprise-development center. This center develops and promotes SMEs that can compete and win contracts from the oil industry. Since its launch in 2005, CAE has delivered training and technical assistance to 2,151 local companies. They, in turn, have won 348 contracts worth \$241 million and created 4,809 jobs. CAE is now run by the Angolan Chamber of Commerce and Industry and continues to support local SME development.⁵²

Angola’s CAE demonstrates that businesses can increase their development impact by tying it more closely to core business operations. Building a supply chain of trained local businesses that meet the standards, speed, and quality required by a major multinational company creates important local jobs and benefits both the oil industry and Angola over the long-term. Many U.S. companies are engaged in such development activities, either alone or with implementing partners. The U.S. government could play an important role in supporting similar efforts in other countries through training and partnerships with companies that seek to improve and expand their local workforce.

Strengthening and Streamlining the Partnership Process

Its increasing efforts to partner with private enterprise, NGOs, and foundations on development activities makes the United States the leader among Organization for Economic Cooperation and Development donor nations through such programs as the Global Development Alliance (GDA) at USAID.

Innovative Partnerships for Sustainable Solutions: Chevron's Angola and Niger Delta Partnership Initiatives

A Case Study

Chevron Corporation partnered with USAID and others to bring economic stability and opportunity to the agricultural and financial sectors in Angola, and built on those lessons learned in developing a partnership model in Nigeria.

In 2002, David O'Reilly, the former chairman and CEO of Chevron, made a pledge to President José Eduardo dos Santos of Angola that his company would help rebuild this African nation torn apart by 27 years of civil war. To both give back to the Angolan people and strengthen the long-term stability of its operations, Chevron committed \$25 million to launch the Angola Partnership Initiative (API).⁵³ The company looked to USAID to match \$10 million of these funds and serve as its primary partner in designing and implementing a development strategy to advance economic development, initiate recovery of the agricultural sector, promote peace and security, and increase Angola's capacity to find economic stability and improve standards of living.⁵⁴

Formerly a food exporter, Angola's economy lay in ruins and its agriculture sector had been demolished. To address the immediate humanitarian challenges of massive displacement and food insecurity, Chevron and USAID partnered with five NGOs in the region—Africare, CARE, Save the Children, World Vision, and Catholic Relief Services—to form the Consortium for Development Relief in Angola (CDRA). Within this framework, CDRA provided needed food assistance while engaging participants in the rehabilitation of 4,000 kilometers of roads, 1,000 kilometers of irrigation canals, and, ultimately, the revitalization of the agricultural sector to which the farmers could return.⁵⁵

Alongside these efforts to bring peace and stability to the country, API worked to jumpstart the Angolan economy. Among farmers, API worked to revitalize agribusiness by bringing seeds, diversifying crops, and facilitating market access. And, for previously ignored micro- and small-enterprises, API bolstered the financial sector and established ways to effectively access credit. In 2004, Chevron, USAID, and other donors came together to create the micro-financing firm NovoBanco to equip small businesses with loans and assist Angolans in setting up savings accounts. Chevron provided the initial equity investment as well as \$1 million in technical expertise—matched by USAID—in order to get the bank up and running.⁵⁶ NovoBanco was eventually bought out, almost in its entirety, by the Angolan Banco Africano de Investimentos (BAI), although Chevron kept a 7% interest.⁵⁷ Known today as Banco BAI MicroFinanças, the bank continues to provide loans to support thousands of Angolan entrepreneurs. By the end of 2011, the bank had made nearly \$54 million in loans to Angolans.⁵⁸

Today—10 years later—Angola's economy is on a more sustainable trajectory and is not reliant on the emergency assistance that characterized the post-war economic landscape. Chevron's work in Angola is an example of how the business sector—which operates in countries often for decades—can contribute to sustainable peace and economic growth through investments that move beyond a philanthropic model to those that are more sustainable, focused on capacity building, and closely aligned with core business objectives.

Chevron's pioneering work on API inspired the development of the Niger Delta Partnership Initiative (NDPI) in 2010—a five-year, \$50 million endowment that involves a multisector commitment with local and international partners, much like the Angola model. NDPI broadens Chevron's involvement and commitment to the country because it addresses regional economic development outside the company's areas of operation. NDPI's efforts recognize that there cannot be meaningful change in the Niger Delta without the creation of a more enabling and peaceful environment for economic growth. Chevron's Dennis Flemming—who runs NDPI—describes the approach as unique, in that it not only addresses social and economic problems in the Niger Delta but also analyzes them to understand their root causes and identify sustainable solutions.

Since its founding, NDPI quickly generated interest among the international donor community. In February 2011, USAID committed \$25 million to jointly support a number of NDPI projects. Moving forward, NDPI intends to expand its network of organizations, businesses, and consultants promoting economic development in the Niger Delta, and build on the lessons learned to influence development efforts in other countries where Chevron operates.



“ *Long-term impact is not about projects; it’s about transforming societies. This will require partners that can bring successful models to scale.* ”

—MARK SUZMAN

Managing Director, International Policy & Programs, Bill & Melinda Gates Foundation

USAID established the GDA in 2001 when former secretary of state Colin Powell became convinced that the United States could and should team up more often with private counterparts on development activities. The partnerships that have developed range in style and quality, but the best ones draw on the funding, capacity, and knowledge of federal development agencies, NGOs, and the business community to find solutions that none of these entities can solve on its own. Although the federal investment in the GDA remains small in terms of overall U.S. ODA funding, many partnerships have leveraged far-greater dollars than the original investment and made meaningful impacts on the communities and countries in which they operate. The GDA to date has concentrated on building partnerships. Subsequent coordination with the partners and across agencies, however, remains fractured and requires more attention to fully realize the potential of partnerships, especially attracting private capital and investment to support growth and development priorities.

The State Department,⁵⁹ MCC, and other federal offices have partnership programs, but they are still evolving. The most mature approach remains at USAID; but even there, prospective partners face multiple entry points and confusing contractual processes. Many have expressed the need for “one-stop-shopping” with the U.S. government to quickly learn about partnership opportunities and avoid multiple approaches from various government agencies requesting resources for different initiatives.

Even with promising partnership opportunities, many companies, foundations, and NGOs are not approached until agency plans are well developed. In numerous other cases, these private entities are asked to consider projects that are not core to their business operations or funding priorities. Partnering and co-investing is challenging under any circumstance but especially difficult with a large and diverse federal bureaucracy that sometimes has compet-



“ *The U.S. government is one of our most important partners in developing countries and we want to do more. We continue to rely on our partnerships to be successful in our business operations.* ”

—RHONDA I. ZYGOCKI

Executive Vice President, Policy and Planning, Chevron Corporation



“ *Public-private and private-private partnerships are compelling ways to take advantage of today’s opportunities for transformational development.* ”

—R. HUNTER BIDEN

Chairman, Rosemont Seneca Partners, LLC, and Chairman, World Food Program USA

ing missions. The U.S. government and many U.S. companies now have over a decade of experience developing partnerships. Understanding and improving on the lessons learned will be challenging but well worth the effort because of the vast number of potential partners and the resources they can bring to the table.

There remains skepticism among some government officials about engaging private companies in development at any level. Many others have a tendency to look at U.S. businesses simply as a funding source for a particular project that will not be funded out of the agency’s budget. Corporate partners offer tremendous skill, knowledge, and human resources, not just funds. The government and private sector do not often mingle personnel, which leads to misunderstandings about motives and priorities. Creating exchanges and hiring individuals with private-sector expertise into the government, could begin to bridge some of these misunderstandings and create greater opportunities.

In an era of fiscal constraints, harnessing the power and unique capacities of the private sector will become ever more important. U.S. business investment can help generate employment; spur local production and entrepreneurship; and transfer skills, technology, and expertise in management, procurement, regulation, good accounting practice, and a host of other areas that can serve U.S. development interests. NGO and philanthropic engagement likewise builds capacity and can address challenges that are important but beyond the government’s mandate. To maximize the impact of these investments, the U.S. government must move beyond looking at partnerships with the private sector as simply a social investment, or these efforts will remain project based, short lived, and disconnected from real development opportunities. Through expanded partnerships, conceived and coordinated together and built with core business operations and capabilities in mind, the government can work with the private sector to take advantage of the enormous opportunity. ▶

TRADE: An Effective but Underutilized Tool for Development

Market openness is a critical factor in promoting growth, and openness to trade raises national incomes.⁶⁰ If done properly, trade can have significant development impacts for national governments, small producers, and individuals. Yet U.S. policy for trade, investment, and development is seen as separate rather than complementary and integrated. Trade frameworks and agreements will eventually connect developing countries to the global economy, providing a marketplace for the country's goods and products and eventually creating larger markets for U.S. exports. To promote development through trade, it must be supplemented by sufficient investment in human capital and infrastructure, the proper macroeconomic policies, and an active and supported labor market. The U.S. government has a large set of trade and investment tools that it can use more effectively to open new opportunities for small- and medium-sized producers, promote broad-based development, and ensure faster growth. The United States can and should do more with its trade and development agendas to ensure they achieve mutually supportive goals. But as of now, the U.S. government has no coherent strategy to do so, nor any office empowered with the necessary resources to implement such a strategy.

The U.S. trade toolkit is varied and robust, and it includes the generalized system of preferences, trade and investment framework agreements (TIFAs), bilateral investment treaties (BITs), and free trade agreements (FTAs). Often, trade debates focus on the ultimate and difficult goal of enacting an FTA, when in reality trade tools reside along a spectrum, with the comprehensive FTAs at one end representing the highest standard. Working with a developing country on an overarching TIFA could eventually lead to an FTA, but negotiating an FTA can be a prolonged process. In the meantime, the U.S. government should seek to build trade capacity in many developing countries using its other tools.

For example, because local companies often do not meet global standards, recently signed FTAs include a trade capacity-building (TCB) chapter to address these concerns.

Trade capacity building as a part of trade agreements is a relatively new and undeveloped mechanism. The United States first included a TCB chapter in the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) signed in 2004. This TCB chapter is being implemented based on annual meetings with host countries that began in 2007. USAID directs all resulting programs with input from USTR, USDA, USTDA, MCC, OPIC, and the U.S. Environmental Protection Agency. These are demand driven by the countries, which must identify their needs and then formulate national action plans to address these issues. The core economic development challenges and opportunities presented in the CAFTA-DR trade negotiations are contained in these action plans. Costa Rica, for example, recognized that trade capacity was but one part of the larger economic-development challenges facing that nation. Thus, its action plan is divided into six parts: (1) trade-policy barriers; (2) institutional capacity-building needs; (3) priorities to strengthen the private sector and civil society; (4) support needs of SMEs to enter the international market; (5) ways to improve the national business climate; and (6) main problems facing the production sector as the country transitions to free trade. Although many of these are directly tied to implementing an FTA, it is clear that Costa Rica saw this as an opportunity to tackle broader economic-growth issues.

Although, Costa Rica’s experience with CAFTA-DR likely represents an ideal—in particular because it is a small country with leadership that recognizes the benefits of trade and broad-based growth—it still is useful to look at how it can be applied elsewhere. The negotiations to produce Costa Rica’s national action plan helped to increase political buy-in for the reforms necessary to improve economic growth. The ongoing negotiations for the Trans-Pacific Partner-



“ I have seen firsthand the impact of empowering people to overcome poverty by leveraging development aid along with trade and private sector investments. These catalytic platforms are dynamic tools in reducing poverty and hunger. ”

—JOSETTE SHEERAN

Vice Chairman, World Economic Forum,
and former Executive Director, United
Nations World Food Programme

ship (TPP)—being negotiated with Brunei, Chile, Singapore, New Zealand, Australia, Peru, Vietnam, Malaysia, Mexico, and Canada—include a trade-capacity chapter, which signals the importance of trade and open markets to developing-countries’ growth. The TPP negotiations also present an excellent opportunity to explore a more formal role for the private sector in certain TCB programs.

The United States has an opportunity to engage with regional groupings of countries in sub-Saharan Africa and Southeast Asia to promote trade and investment that leads to growth and development. In many instances, this engagement could make it easier for small markets that would otherwise be overlooked to trade with the United States. Indeed, the United States already has TIFAs with the Common Market for Eastern and Southern Africa, the East African Community, the West African Economic and Monetary Union, and the Gulf Cooperation Council. Strengthening these existing TIFAs by working to improve these countries’ ability to trade with one another and with the United States would offer clear development benefits. The Association of Southeast Asian Nations (ASEAN) would be a promising regional organization to address this with, especially in light of Laos’ recent accession to the World Trade Organization and the easing of U.S. sanctions against Burma. In a similar vein, the African Growth and Opportunity Act (AGOA) sought to expand a generalized system of preferences for a group of African countries. AGOA lowered tariffs on light-manufacturing items and agricultural products. To be eligible for AGOA preferences, a country must improve its labor standards and move toward a market-based economy. AGOA is politically popular but could be strengthened to better address the trade needs of the participating countries.

Addressing trade practices early in a country’s development will give the country quicker and more stable

access to international markets, and the broader global system—in particular the United States—will benefit because more countries will follow clear rules of the game for trade. The greatest benefits of following these rules accrue to the country itself. Intellectual property rights, commercial adjudication, sanitary standards, and labor rights are all components of trade negotiations and capacity-building efforts that can increase national income. Many countries resist lowering tariffs because they fear the loss of an important source of revenue. The solution lays not simply in trade agreements but in working with the local government to improve its financial-management systems and reform its tax code to improve tax collection and manage resulting revenue. This is traditionally the work of USAID and other U.S. government agencies that provide technical assistance. It can be strengthened, better coordinated, and integrated into trade negotiations from the beginning.

The United States must be more creative in using the tools at its disposal and more aggressively pursuing new trade agreements. At present, the United States is negotiating just one trade agreement—the TPP—out of 100 currently being negotiated globally. This is an important agreement that will strengthen U.S. trade relations across the Asia-Pacific region, but it falls far short of a broad and global trade agenda. The United States currently has 47 BITs in force, but only two were signed in the last 10 years (Uruguay and Rwanda). In contrast, Germany, China, Turkey, Switzerland, the United Kingdom, and Egypt have each signed 100 BITs. More important, of the 2,600 BITs in force today, 1,000 are South-South agreements, which demonstrates how much developing countries want to expand their trade. As an initial step, the U.S. government could launch discussions with groups of countries that could similarly benefit from a redesigned trade and investment agreement, such as Ghana, Tanzania, Namibia, Senegal, Gabon, and Mozambique in Africa, and Thailand, Indonesia, and the Philippines in Asia. ►

DEVELOPMENT FINANCE: Facilitating Private Investment

There are many developing countries—particularly low-income, fragile states, and lower-middle-income countries—that could benefit from private investment, but because of their overall business, investment, and political climates, they are not attractive to Western business operations. The U.S. government has development finance tools, such as OPIC and the Development Credit Authority at USAID that it can deploy to help mitigate these risks and catalyze greater private investment. Development finance institutions (DFIs) are critical to fostering growth for local and international companies looking to expand in the developing world. And their importance to development is growing for two reasons. First, the goal of fostering the private sector is gaining acceptance and requires types of aid other than grant money. Second, as Western donors continue to struggle with the aftermath of the financial crisis, foreign-aid budgets have fallen and will likely continue to fall. Worldwide, DFIs provide lending to support about \$40 billion per year in investment projects. This is up from approximately \$10 billion in the early 2000s and will likely continue to grow.⁶¹

Broadly, DFIs provide five types of services to clients in developing countries: (1) financial products, including debt, equity, guarantees, local currency loans, and political risk insurance, to entities that lack access to private capital; (2) technical assistance to improve the investment climate, strengthen firm capabilities, or facilitate privatization; (3) catalyzing or “crowding-in” private investment in difficult climates by mitigating risk; (4) demonstrating the viability of investments in a particular sector or country; and (5) networking among stakeholders.⁶²

For its part, OPIC provides: direct loans and investment guarantees for projects in developing countries; political risk insurance; investment guarantees; medium- and long-term financing; debt financing; and support for private-equity investment funds. These are valuable for countries where access to finance is a major stumbling block for private firms looking to expand. This is particularly true in low-income countries where over 45 percent of small-business owners and 40 percent of medium-business owners list access to finance as the top obstacle to growth and business operations.⁶³



M-PESA: The Transformative Power of Mobile Technology in Kenya

Launched in Kenya in 2007, the mobile money transfer system M-PESA has brought financial access to millions through an innovative use of development dollars and cell phones.

M-PESA (short for Mobile *Pesa*—the Swahili word for money) is an innovative mobile-device system that has revolutionized the way Kenyans exchange money and do business, bringing financial access and opportunity to millions. What began as a microloan-repayment system, designed by Vodafone and equally funded by the U.K. Department for International Development (DfID)'s Financial Deepening Challenge Fund, quickly turned into a powerful approach to meet the demand for person-to-person money transfers. DfID's support mitigated the risk of Kenya's fledgling mobile market and allowed Vodafone to invest in this new product. In March 2007, Safaricom—the country's largest mobile operator and a subsidiary of Vodafone—launched M-PESA.

Approximately 60 percent of Kenyans lacked sufficient access to financial services when M-PESA was launched.⁶⁴ Now, M-PESA is used to easily withdraw, deposit, and transfer money to family members, other individuals, and businesses. Individuals who work in Kenya's major cities can send money back to rural areas, pay utility bills, and purchase goods without the exchange of physical money. To do so, subscribers deposit cash with an accredited vendor and receive virtual money on their cell phone. They can then transfer money to another individual or business through a text message, and recipients can withdraw cash from one of the 40,000 M-PESA vendors across the country.⁶⁵ Today, M-PESA has over 15 million subscribers and is used by 70 percent of the country's adult population.⁶⁶ Roughly a quarter of Kenya's GDP is transferred through the network.⁶⁷

M-PESA has created economic opportunity for retailers and innovators who facilitate the system and are creating products to expand its capabilities. Over 40,000 mobile-phone retailers across the country have become accredited mobile-money agents. And a system of intermediaries has evolved to transport cash between these agents to ensure sufficient cash balances for payout—especially in rural areas where money is more likely to be withdrawn rather than deposited. M-PESA customers are charged a small transaction fee, which has boosted profits and benefitted the 50,000 Kenyans directly employed by the company.⁶⁸ It has also streamlined financial transactions and made doing business easier.

The profound success of M-PESA has made it a key generator of revenues and customer retention for Safaricom. In 2011, M-PESA accounted for \$203 million in revenue, nearly half of the company's total non-tariff revenues.⁶⁹ The system has since been expanded further. In 2012, M-Shwari was introduced to provide savings and borrowing options through the Central Bank of Kenya.

M-PESA has inspired similar mobile-money systems in Kenya and farther afield. For example, MTN—Africa's largest mobile phone operator—has introduced a similar system called MobileMoney in Uganda. Vodafone itself has replicated the M-PESA model in other countries. In Tanzania, it is being used to collect tax payments among the population. And in Afghanistan, the government uses the locally named M-Paisa to pay police officers while it simultaneously identifies inefficiencies and corruption from the previous payment system.

These SMEs face serious barriers to acquiring capital or credit. Banks with a presence in developing countries, either through locally owned or Western-owned branches, tend to operate under conservative, risk-averse lending policies. Lending to SMEs is seen as having high costs from a financial and time perspective. This causes banks in these countries to prefer loans to local governments, securities and real-estate firms, and other large businesses with proven track records. Beyond restricting SME access to credit and capital, this bias frequently reinforces the exclusive nature of many developing-country economies.

For Western companies looking at investment projects, the U.S. government and multilateral development banks can make a difference. In the energy sector, for example, this includes assistance with research and development, legal frameworks, knowledge sharing, project development, and investment. Beyond OPIC, businesses can frequently rely on feasibility studies performed by USTDA and technical assistance from USAID or USTDA. The U.S. & Foreign Commercial Service (FCS), an underutilized arm of the U.S. Commerce Department, has representatives in 75 countries around the world, but they are largely concentrated in Europe and the large Asian economies (China, India, and Japan). Only four sub-Saharan African countries host FCS officers: Ghana, Kenya, Nigeria, and South Africa. The absence of the FCS in developing countries limits the United States' ability to grow robust commercial relations. It is difficult for companies interested in investments with development impact to tap technical assistance and other potential tools in a timely and flexible way for a specific investment. More flexible applications of these tools could enable U.S. government agencies to play a larger role in mitigating risk for investments in challenging environments and encouraging investments that would not otherwise occur.



“ *In light of the fact that approximately 87 percent of capital flows to the developing world are private, public-sector players need to focus more on how they can fit into private-sector investment strategies rather than on how to get private-sector organizations into their programs.* ”

—ROBERT MOSBACHER JR.
Chairman, Mosbacher Energy Company,
and former President and CEO, Overseas
Private Investment Corporation

As currently authorized by Congress and deployed by the administration, OPIC and other development finance entities are inadequate to meet the investment opportunities ahead. Politically, support for OPIC, USTDA, the Export-Import Bank, and related institutions is weak because of a lack of understanding of their vital roles. In the past, for example, Congress reauthorized OPIC on a five-year basis, but beginning in 2007, OPIC has endured a series of year-long extensions. In 2008, Congress let this authorization lapse for six months and put OPIC in limbo, forcing the agency to walk away from \$2 billion in deals, all of which not only would have promoted development but also generated interest income for the U.S. government.⁷⁰ OPIC is also the only G-7 development finance institution that lacks the ability to make equity investments; it can only make debt investments. In developing nations with particularly difficult business environments, where the need is likely more for equity than debt, this limits OPIC's ability to bolster investment. OPIC would also be strengthened if it had the ability to guarantee first loss on even a limited basis. Finally, OPIC does not have its own in-house technical assistance capability, which it often needs to strengthen existing partners engaged on a particular project. Encouraging private-sector investment, especially in the face of potentially declining foreign-aid budgets, is of paramount importance. For companies to grow their operations and employment within the United States, access to international markets is vital. The tools exist, but they need to be supported and maximized to catalyze investment. ►





Part II: Recommendations



1 *Make Broad-based Growth the Central Organizing Principle of U.S. Development Policy*

- ▶ **The President and Leaders of U.S. Development, Diplomatic, and Economic Agencies Should Prioritize Broad-based Growth as the Central Pillar of U.S. Development Strategy.** As stated in PPD-6, “Economic growth is the only sustainable way to accelerate development and eradicate poverty.”⁷ This must now be operationalized.

- ▶ **Develop a Constituency for Broad-based Growth.**

Congress: Actively educate members of Congress on the benefits of broad-based growth as a powerful development tool and the central role the private sector plays.

The Public: Conduct an outreach campaign through NGOs, religious groups, and universities to raise interest in reducing overseas poverty through jobs and growth.

Business Leaders: Encourage the business community to lead by example with their development efforts and share best practices and case studies with other private-sector leaders.

- ▶ **Shift \$350 Million to Support Economic-growth Activities.** The U.S. government should shift \$350 million from other foreign-aid accounts into the economic-growth account through cost savings and efficiencies.
- ▶ **Promote Entrepreneurship to Reduce Poverty.** The U.S. government should work with countries to identify barriers to entrepreneurship and seek to package technical assistance with development-finance tools that provide the knowledge and financing necessary to spur entrepreneurship. American entrepreneurs and business leaders should share their stories and ideas globally.

2 *Align U.S. Development Instruments with the Private Sector*

- ▶ **Set Targets.** Development agencies should set a target of allocating 25 percent of development funds to partnerships that engage core business operations.
- ▶ **Streamline and Simplify Private-sector Partnering.** Congress and development agencies must work together to simplify the process, contracting, and legal requirements for establishing partnerships with private entities. USAID should designate one bureau as the central node for all federal-private partnering activities. In addition, it should seek to hire personnel with backgrounds in the private sector and create a program that encourages exchanges between development agencies and business.
- ▶ **Coordinate Early with Private Partners and Plan In-country.** Each U.S. embassy should formalize a country-based system for communicating with American companies and NGOs operating in-country. USAID missions and embassies should coordinate outreach to companies and, where feasible, design development, trade, and investment activities to leverage private investments for growth. They must have greater flexibility in programming funds and designing projects and activities involving partners.
- ▶ **Leverage Business Practices, Supply Chains, and Training.** U.S. development agencies and programs should make greater use of U.S. business operations to build training programs that will enhance the local workforce and prepare local companies to compete globally. They should maximize the purchases U.S. businesses and large local companies make from local suppliers by preparing small- and medium-enterprises (SMEs) to become suppliers to larger companies and providing SMEs access to financing and joint venture partnerships.

3 *Promote Trade and Investment Using Existing but Underutilized Tools*

- ▶ **Change the U.S. Mindset about Developing Countries.** Private-sector leaders must engage policy makers on how developing countries benefit from U.S. trade and investment, and how the private sector has achieved many major development outcomes. Likewise, U.S. government officials must emphasize the progress made and opportunities for business investment that also promote economic growth and social good.
- ▶ **Invest in Growing Countries Committed to Business Reforms.** U.S. development agencies should codevelop trade and investment plans with countries that are committed to business- and investment-climate reforms that address their main barriers to growth.
- ▶ **Reenergize the Trade Agenda with Developing Countries by Using the Full Spectrum of Trade Tools.** The U.S. trade agenda remains weak compared to other countries. It must provide economic engagement that meets countries' needs and current capabilities. While free trade agreements may be the ultimate outcome, the United States can deploy a wide range of tools that will build capacity and trade, and open new markets.
 - **Strengthen TIFAs.** The U.S. government should strengthen the TIFAs it has with developing countries and identify countries that could benefit from an enhanced TIFA. These new agreements should include specific trade capacity-building measures and a requirement for the partner country to develop a national action plan that could lead to an FTA.
 - **Establish Bilateral Investment Treaties.** BITs are an important precursor to free trade agreements that set a legal framework for U.S. companies to do business in the partner country. They should be actively pursued with developing countries.

- **Add a Trade Capacity-building Chapter to New Trade Agreements.** A trade-capacity chapter sets forth those policies, regulations, and practices a developing country will introduce—from food safety regulations to intellectual property rights—to assist their integration into the international trade system. The U.S. should include such a chapter in future trade agreements with all developing countries and regions.
- **Build on Existing Trade Programs.** The U.S. government should build on existing preferential trade programs—such as AGOA—to make them more responsive to local economic conditions. With AGOA, the existing preferences should be expanded to place greater emphasis on light-manufactured goods and textiles.

► **Strengthen Development-finance Practices that Can Kick-start Private Investment.**

The U.S. government should improve coordination of several development finance agencies.

- **Increase Small- and Medium-sized Enterprise Access to Capital.** Congress should create a SME line item similar to the long-existing microfinance item in the annual foreign operations-appropriations bill to improve SME access to capital. It should further build the capacity of private development-finance organizations, such as the Small Enterprise Assistance Fund, by removing policy and regulatory obstacles to SME lending.
- **Continue to Support the MDB General Capital Increase.** The United States should continue to coordinate its MDB work in ways that broadly reflect a pro-growth orientation such as supporting and strengthening the *Doing Business Report* agenda. Congress should also continue disbursements to the MDBs under the 2011 GCI agreement. The United States must continue to exercise leadership—including financial—at the MDBs to support U.S. interests around the world.
- **Expand and Strengthen OPIC's Mandate.** OPIC must be reauthorized on a long-term or permanent basis and its mandate expanded and strengthened by increasing its borrowing ceiling, providing it with equity-investing authority, allowing it to provide first-loss funding, and improving access to technical assistance.
- **Improve Links between OPIC, USAID, Department of Commerce, and USTDA.** OPIC could enhance its current impact on private investment by working in closer concert with USTDA, Department of Commerce (U.S. & Foreign Commercial Service), and USAID. This would link development-finance products with commercial interest and technical assistance, and make for more robust packages.

Conclusion

Thirty years of growth have radically changed the development landscape and offer the United States a new opportunity to lead and benefit from increased trade and influence. This growth is transforming countries and offers tremendous opportunity. The U.S. government, through its trade, investment, and development tools, can work with the U.S. private sector to play a central role in ensuring that this growth is enduring, broadly based, and environmentally sustainable. This may be the most important strategic opportunity of the twenty-first century; it is one that the U.S. foreign-policy, economic, and national-security communities must recognize and prioritize.

The U.S. government cannot do this alone. It must work in partnership with the private sector at home and abroad. It must see developing countries as partners and not simply recipients of assistance dollars. It must work more closely with the multilateral development banks—of which it remains the largest shareholder—and better align policy and action. What should be clear is that the U.S. government and the private sector have the tools to play the central role required of them. But the United States must review its process, seek alignment where it can find it, and respond to the aspirations of the people it aims to help.

The United States faces competition around the world, but it offers a model of growth and prosperity that can meet the aspirations of people for representative, accountable government and broad-based growth. A wealth of tools, technologies, and talents is available, but they must be brought together in strategic, creative, and flexible partnerships between the government and the private sector. Harnessing these tools will unleash a world of potential for citizens in America and throughout the world.

This is our shared opportunity. ▲

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About the Executive Council on Development

The CSIS Executive Council on Development (“the Council”) was formed to conduct the second phase of a five-year CSIS initiative that seeks to focus and strengthen the United States’ international development policy and improve more livelihoods worldwide. Through a year of research and deliberations, the Council sought to understand how the U.S. government and the private sector—both on their own and in partnership—can support the economic success of developing countries. The Council concentrated on forming a U.S. development policy that promotes broad-based economic growth by deploying all U.S. assets in a coordinated way, including the numerous capable U.S. development agencies; federal economic, trade, and diplomacy tools; and the vibrant American business community, nongovernmental organizations (NGOs), and philanthropy.

Council Cochairs. Many groups of this type are cochaired by two people: a Republican and a Democrat. For this Council, however, CSIS believed it was critical to have cochairs from the private sector as well to ensure robust discussions on the assets and opportunities that exist for U.S. engagement with developing countries.

The formidable cochairs were:

- Former Democratic Senate majority leader Thomas Daschle
- Former Republican congressman Vin Weber
- Business leader and former Hewlett-Packard CEO Carly Fiorina
- Hyatt Hotels executive chairman Thomas Pritzker

This group was ably advised and guided by CSIS trustee and former USAID administrator Henrietta Fore. These five leaders brought tremendous diversity, expertise, and optimism to the Council.

Council Members. The members of the Council were carefully chosen from government, industry, NGOs, and philanthropic groups to represent a broad range of backgrounds and areas of expertise. They included representatives from Democratic and Republican administrations, Congress, and several U.S. development agencies. The Council’s private-sector leaders were vital to the group’s balance and success and were drawn from leading American companies in energy production, consumer goods, food products, and other sectors. NGOs, faith-based organizations, and philanthropic groups—thriving parts of the U.S. private sector and development community—were also central to the group.

Project Directors and Report Authors. The Council was directed by Johanna Nesseth Tuttle and Daniel Runde, codirectors of the CSIS Project on U.S. Leadership in Development (USLD). Its final report was authored by Ms. Nesseth Tuttle and Conor Savoy, USLD fellow, with significant input and substance from Mr. Runde. Lauren Bieniek, USLD program manager and research assistant, led the Council’s process, provided editorial support for the report, and drafted the case studies and text boxes.

Council Meetings. The Council convened in February, June, and September of 2012. The majority of its members participated in all three meetings and heard a great deal from each other as well as from external speakers. Outside speakers who graciously lent their time and expertise to the group included Donald Steinberg, deputy administrator, USAID; Nisha Desai Biswal, assistant administrator for Asia, USAID; Rodney Bent, director, UN Information Centre in Washington, D.C.; and William Garvelink, senior adviser, CSIS.

Preliminary Research Agenda. The Council's work built on a year of research and public events CSIS held on the role of the private sector in development. CSIS scholars led 10 formal working groups and conducted countless interviews, expert consultations, meetings, and events before publishing a series of reports to inform the Council and its work. For a complete list of these publications, please see *Additional CSIS Resources on Development*.

CSIS also hosted the Chevron Forum on Development, a public-event series designed to renew the discourse on development in Washington and generate case studies of best practices. This series focuses on business engagement in development and partnership with government. To date, CSIS has hosted 18 Chevron Forum events, which featured more than 45 business, administration, congressional, and NGO leaders and has drawn well over 2,000 attendees.

Project Funding. The Council and the research that preceded it were generously supported by the Chevron Corporation. Rhonda Zygocki, executive vice president for policy and planning at Chevron and a member of the Council, has been a significant force in shaping the way that Chevron and USAID have considered partnerships with the private sector. Her guidance and input have been invaluable.

What Happens Next? The Council members made crystal clear their intent for this report: that it foster real and lasting change. With their encouragement, and with Chevron's continued support, CSIS has planned an extensive outreach campaign to share this report with Congress, the administration, donor-country partners, and the private sector. These efforts will include dialogues with business leaders on best practices to leverage their activities for improved development outcomes; briefings with government officials about the opportunities to partner more effectively with business, philanthropy, and NGOs; outreach to universities to build support for strengthening U.S. development; and continued research on additional ways to implement this report's recommendations.

About the Council Members

Cochairs

Thomas A. Daschle (D-SD) is a distinguished politician who served in the U.S. House of Representatives and the U.S. Senate. He is one of the longest-serving Senate Democratic leaders in history and the only one to serve twice as both majority leader and minority leader. Senator Daschle has contributed to the discourse on almost every major public-policy issue of the last three decades, including economic and national-security challenges, health care, climate change, and financial-services reform. He currently serves as senior policy adviser in DLA Piper's government affairs practice.

Carly Fiorina began her business career as a secretary and became the first woman to lead a Fortune 20 company, serving as CEO and chairman of Hewlett-Packard from 1999 to 2005. Today, in addition to leading Carly Fiorina Enterprises, she is engaged in politics, including launching her own Senate campaign in 2010 and serving as the vice chair of the National Republican Senatorial Committee. Ms. Fiorina is also actively involved in philanthropy. She is the founder of the One Woman Initiative and serves as the chairman of Good360. She is also a senior adviser to CSIS.

Thomas J. Pritzker is executive chairman of Hyatt Hotels Corporation and chairman and CEO of The Pritzker Organization, a family merchant bank. He is also chairman of the Marmon Group, Inc., on the board of directors of Royal Caribbean Cruises, Ltd., and sits on the CSIS Board of Trustees.

Vin Weber (R-MN) is a prominent and successful strategist in the Republican Party. He represented Minnesota in the U.S. House of Representatives from 1981 to 1993 and was elected a member of House Republican leadership. He is a trusted adviser to senior officials in the administration and on Capitol Hill, and he has counseled numerous presidential campaigns. Mr. Weber is highly sought after by the media for his policy analyses. He currently serves as partner and cochairman of Mercury/Clark and Weinstock.

Honorary Cochair

Henrietta H. Fore served as former administrator of USAID and director of U.S. Foreign Assistance, holding the rank of deputy secretary of state; the under secretary of state for management; and the 37th director of the United States Mint. She has also served on the boards of the Overseas Private Investment Corporation and the Millennium Challenge Corporation. Ms. Fore is currently chairman of the board and CEO of Holsman International and sits on the CSIS Board of Trustees.

Members

R. Hunter Biden is chairman at Rosemont Seneca Partners, LLC and is counsel to Boies, Schiller & Flexner, LLP. He currently serves as chairman of the board of World Food Program USA. Previously, Mr. Biden was a founding member of the law firm of Oldaker, Biden and Belair, LLP; was appointed by President Clinton to serve as executive director of E-Commerce Policy Coordination under Secretary of Commerce William Daley; and was senior vice president at MBNA America Bank.

Edward D. (Ned) Breslin is CEO of Water For People. He started working for water- and sanitation-sector NGOs in 1987 in northern Kenya. Mr. Breslin lived and focused on these issues for nearly 20 years in Africa before returning to the United States in 2006 to work at Water For People. His work encourages alternatives to conventional sector programming with a greater focus on accountability. He is a 2011 recipient of the Skoll Award for Social Entrepreneurship.

Helene D. Gayle is president and CEO of CARE USA. Previously, Dr. Gayle was the director of the HIV, TB and Reproductive Health Program at the Bill & Melinda Gates Foundation and had a 20-year career with the Centers for Disease Control and Prevention and the U.S. Public Health Service, retiring as a rear admiral and assistant surgeon general. She is a medical doctor and an expert on public health, global development, and humanitarian issues. Dr. Gayle also sits on the CSIS Board of Trustees.

Mark Green (R-WI) is president and CEO of the Initiative for Global Development. He has also served as senior director at the U.S. Global Leadership Coalition and is on the board of directors of the Millennium Challenge Corporation. From 1999 to 2007, Ambassador Green represented Wisconsin in the U.S. House of Representatives, where he helped craft a variety of innovative foreign policy initiatives, including the Millennium Challenge Act. After his service in Congress, he served as the U.S. ambassador to Tanzania, where he oversaw the largest Millennium Challenge compact and a number of global-health programs.

John J. Hamre is president and CEO of, and Pritzker Chair at, CSIS. Before joining CSIS, he served as the 26th U.S. deputy secretary of defense. He previously served as the under secretary of defense (comptroller), on the staff of the Senate Armed Services Committee, and with the Congressional Budget Office. In 2007, Secretary of Defense Robert Gates appointed Dr. Hamre chairman of the Defense Policy Board, a position he continues to hold in the current administration.

Benjamin W. Heineman Jr. is a widely respected lawyer who served as GE's senior vice president for law and public affairs from 1987 to 2005. Before that, he served as assistant secretary at the then-U.S. Department of Health, Education and Welfare and as managing partner of Sidley & Austin. He is the author of books on the American presidency, British race relations, and corporate ethics. He also sits on the CSIS Board of Trustees.

E. Neville Isdell served as CEO of The Coca-Cola Company from June 2004 to July 2008 and chairman of the board from June 2004 to April 2009. Before becoming CEO, he worked for Coca-Cola in numerous other positions of increasing responsibility in locations across the globe. In his 43 years with the company, Mr. Isdell expanded its legacy of corporate responsibility, and in 2006, Coca-Cola returned to *Fortune's* list of the "World's Most Admired Companies," where it is now ranked fourth. Mr. Isdell also sits on the CSIS Board of Trustees.

Farooq Kathwari is chairman, president, and CEO of Ethan Allen Interiors Inc. He has been chairman and CEO since 1988 and president since 1985. Under Mr. Kathwari's leadership, Ethan Allen has been transformed into a leading interior design company whose vertically integrated

business model feeds its success. Mr. Kathwari serves on several nonprofit boards and on the President's Advisory Commission on Asian American and Pacific Islanders. Mr. Kathwari is also a CSIS Advisory Board member.

Paula Luff is vice president of corporate social responsibility at Hess Corporation, where she works to build and manage the company's corporate social responsibility and philanthropy functions. Prior to joining Hess, Ms. Luff served as senior director of global philanthropy for Pfizer Inc. She has also worked with CARE.

Theodore E. McCarrick served as archbishop of Washington from 2000 until 2006, during which he was named a cardinal by Pope John Paul II. Prior to that, he served as archbishop of Newark and bishop of Metuchen, New Jersey. He is known for his work on international human rights and religious freedom, and has traveled widely to nations such as China, Cuba, Saudi Arabia, South Korea, Rwanda, and Sri Lanka. Cardinal McCarrick also serves as counselor at CSIS.

Robert Mosbacher Jr. is the former president and CEO of the Overseas Private Investment Corporation, where he managed private-capital investment in emerging markets around the world. He currently serves as chairman of Mosbacher Energy Company (MEC), an independent oil- and gas-exploration and production company in Houston, Texas. Mr. Mosbacher previously served as president and CEO of MEC.

Andrew S. Natsios served as administrator of USAID, where he managed reconstruction programs in Afghanistan, Iraq, and Sudan. At USAID, he has also worked as director of the Office of Foreign Disaster Assistance and as assistant administrator for the Bureau for Food and Humanitarian Assistance (now the Bureau of Democracy, Conflict and Humanitarian Assistance). Mr. Natsios served for 12 years in the Massachusetts House of Representatives, after which he was secretary of administration and finance for the Commonwealth of Massachusetts, and then manager of Boston's Big Dig project.

Bea Perez is chief sustainability officer of The Coca-Cola Company, where she is responsible for creating and overseeing an integrated sustainability strategy, setting global goals and commitments, assessing and driving scaled investments, and managing global sustainability partnerships and programs. Ms. Perez joined Coca-Cola in 1996 and has held several positions of increasing responsibility, most recently chief marketing officer in North America.

Katherine Pickus is divisional vice president of global citizenship and policy at Abbott. She is also vice president of the Abbott Fund, the company's philanthropic foundation. Prior to joining Abbott, Ms. Pickus served as the special assistant for national security affairs to the vice president of the United States. In addition, she was with the United States Information Agency, at that time, a branch of the U.S. Department of State, where she worked with private-sector organizations to develop and implement democratic institution building programs worldwide. During her career, she has partnered with USAID and United Nations on various initiatives.

Josette Sheeran served as executive director of the United Nations World Food Programme (WFP), the world's largest humanitarian agency. Prior to working with WFP, Ms. Sheeran served as undersecretary for the U.S. Department of State, as deputy U.S. Trade Representative, and as CEO and president of Empower America. In 2012 she was appointed vice chairman of the World Economic Forum.

Anne-Marie Slaughter served as director of policy planning for the U.S. Department of State from 2009 to 2011, the first woman to hold that position. Upon leaving the State Department, she received the Secretary's Distinguished Service Award for her work leading the Quadrennial Diplomacy and Development Review. Prior to her government service, Dr. Slaughter was dean of Princeton University's Woodrow Wilson School of Public and International Affairs. She is a frequent contributor to the media, which includes publishing op-eds in major newspapers, magazines, and blogs around the world and curating foreign policy news. She is currently the Bert G. Kerstetter '66 University Professor of Politics and International Affairs at Princeton.

Mark Suzman is managing director for international policy and programs at the Bill & Melinda Gates Foundation, where he leads a team that helps build strategic relationships with governments, NGOs, and other key partners to increase awareness, action, and resources devoted to global development and health priorities. Prior to joining the foundation, Dr. Suzman held several positions at the United Nations and worked as a correspondent for the *Financial Times*.

Carolyn Y. Woo is CEO and president of Catholic Relief Services. Previously, she served as dean of the Mendoza College of Business at the University of Notre Dame. Earlier in her career, Dr. Woo held the position of associate executive vice president for academic affairs at Purdue University.

Rhonda I. Zygocki is executive vice president of policy and planning for Chevron Corporation, a position she has held since 2011. She is responsible for Strategic Planning; Policy, Government and Public Affairs; and Health, Environment and Safety. From 2007 to 2011, Ms. Zygocki served as vice president of policy, government and public affairs. Earlier, she was corporate vice president of health, environment and safety for Chevron from 2003 to 2007. Ms. Zygocki joined Chevron in 1980 and has held positions in posts all over the world, including Canada, the United States, and Australia. She serves on the boards of directors of the United States Energy Association and GBHealth; the board of trustees of the San Francisco Ballet; and the advisory board of the Woodrow Wilson International Center for Scholars Canada Institute.

Additional CSIS Resources on Development

In 2011 and 2012, the CSIS Project on U.S. Leadership in Development led an intensive research agenda through a number of working groups to study innovative thinking on development. The following materials are the result of that research effort, all of which greatly informed the deliberations of this Council.

REPORTS

Trade & Economics

The Business Case for Development: How Companies Can Drive Sustainable Development – and How Governments and Donors Can Leverage Their Impact, an Initiative for Global Development publication by Jeri Jensen
http://www.igdleaders.org/documents/IGD_Business-Case-for-Development.pdf

Maximizing Development of Local Content across Industry Sectors in Emerging Markets: How Private-Sector Self-Interest Can Help U.S. Development Policy, by Michael Levett, Ashley E. Chandler
http://csis.org/files/publication/120517_Levett_LocalContentDevel_web.pdf

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About the Project on U.S. Leadership in Development

The CSIS Project on U.S. Leadership in Development is a partnership with Chevron Corporation that focuses on leveraging all U.S. assets—the private sector in particular—in development efforts to promote broad-based economic growth, improve livelihoods, and reduce poverty in developing countries worldwide. The project seeks to renew the discourse in Washington on development and produce a fresh, actionable set of policy recommendations. The Executive Council on Development represents the second phase of this five-year initiative and builds on the project’s initial research activities and public events. Over the next three years, the Project on U.S. Leadership in Development will continue the work of the Council by conducting outreach and engaging key stakeholders on approaches to implement this report’s recommendations.

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Abbreviations

AGOA	African Growth and Opportunity Act
API	Angola Partnership Initiative
ASEAN	Association of Southeast Asian Nations
BIT	Bilateral Investment Treaty
CAE	Centro de Apoio Empresarial
CAFTA-DR	Dominican Republic-Central America Free Trade Agreement
CDRA	Consortium for Development Relief in Angola
CRS	Catholic Relief Services
CSIS	Center for Strategic and International Studies
DFI	Development Finance Institution
DfID	U.K. Department for International Development
FCS	U.S. & Foreign Commercial Service
FTA	Free Trade Agreement
GCI	General Capital Increase
GDA	Global Development Alliance
GDP	Gross Domestic Product
ICF	Investment Climate Facility for Africa
IFC	International Finance Corporation
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
NATO	North Atlantic Treaty Organization
NDPI	Niger Delta Partnership Initiative
NGO	Nongovernmental Organization
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation
P.A.C.E.	Personal Advancement & Career Enhancement
PfG	Partnership for Growth
PIH	Partners In Health
PPD-6	Presidential Policy Directive on Global Development
QDDR	Quadrennial Diplomacy and Development Review
SME	Small- and Medium-sized Enterprise
TCB	Trade Capacity Building
TIFA	Trade and Investment Framework Agreement
TPP	Trans-Pacific Partnership
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USTDA	U.S. Trade Development Agency
USTR	Office of the U.S. Trade Representative

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