Advancing US Leadership in Development

Two strains of thought on the US government's engagement with the private sector in development repeatedly arose during the roundtable discussions and led to ideas on how the US could strengthen its contribution to development. The first was frustration with interminable US government decision-making on finance, and with the inability to join together the multiple US government finance tools needed for a single investment project; and the second concerned opportunities for the US to exert its comparative advantage and leadership.

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Global Development and US Comparative Advantages

With the dramatically altered dynamics of development over the past decade, Western donor assistance in influencing development is diminishing:

- Financial flows to developing countries have flipped from being principally donor driven to 85 percent private.
- A number of countries have graduated from low-income to middle-income status.
- A total of 17 countries in Sub-Saharan Africa have been sustaining an annual economic growth rate of 5 to 7 percent.
- There has been a growing recognition of the central role of the private sector in sustainable development.

Official assistance is still important for some countries, in some circumstances, and still can be catalytic, but its relative role is in decline, especially given the drop in aid levels during the last several years.

The US needs to focus its development policies and programs on other government policies and tools that make an impact on development—trade, monetary policy, patent policy, immigration, and basic research and development. These engagements are also those which developing countries are increasingly seeking. US development agencies need the capacity and authority to evaluate and influence these policies. And the US development programs should be grounded in the country's comparative advantages—in science and technology, in innovation that comes from government-sponsored and privately sponsored research, from the private sector, from higher education and research institutions, and from the strength of civil society. This orientation is found in the themes of the first-ever Presidential Policy Determination on Development in 2010 and in more recent initiatives and needs to be reflected more in implementation.[1]

A Need for Coherence and Coordination to Facilitate Blended Finance

A consistent theme among private sector discussants at the roundtable was frustration with securing timely decisions from US development finance institutions and the array of financing tools that is often required to complete a deal. There also was a consensus that in certain environments and new markets, it is the combination of soft and private finance that can clinch a deal, and that often what is needed is early-risk finance that the government could supply but seldom provides.

The government often holds the missing pieces, but the array of tools—technical assistance, guarantees,

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equity, export credits—rests in separate government agencies, each with its own set of procedures and criteria that are difficult to mesh into a coordinated whole. The US Overseas Private Investment Corporation (OPIC) quantified the finance gap in a background paper that lists 24 projects that are held up by insufficient equity finance.[2] How can this void be filled?

The most radical solution arises from the irony that the United States, the country most identified with the theory and practice of private enterprise, has no agency devoted to comprehensively taking this model to the world. So why not combine the various tools—OPIC; the US Trade and Development Agency; the private sector tools of the US Agency for International Development (USAID); and the international programs of the Small Business Administration, the Department of State and the Treasury Department's Office of Technical Assistance—into a US Development Bank?[3]

Knowing that such a solution is too heavy a political lift, given entrenched political and bureaucratic interests, another approach is a one-stop-shop. Rather than a business person searching from agency to agency for the relevant government tools, this approach would provide the private sector with one place where it can find the full range of government programs. To take it a step further, agency procedures could be consolidated

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to provide a single format and a point person in each agency to work with other agencies that have tools relevant to a project. Or if not a physical one-stop-shop, what about a virtual one-stop-shop joined with a government-wide policy and incentives that reward employees for collaboration with other agencies? The solution: institute a unified time frame with a drop dead date for a decision—say 90 days.

OPIC's Authority

OPIC is the US international agency most associated with and knowledgeable about the international investment arena. It is self-financing through the fees it charges for its services: political risk insurance, finance guarantees and a small loan program. In 2012, its revenues were $412 million and its operating expenses were $140 million, the balance of which was deposited in the US Treasury in OPIC's reserves, which now surpass $7 billion. The tools that OPIC lacks that can make the difference in an investment project moving ahead are grant funds for technical assistance and the authority to take an equity position. OPIC has at times been able to make up for these gaps, by going cup-in-hand to USAID for grant money for a project and by using its guarantee authority to catalyze investment funds. But both take time and effort that could be employed more efficiently if OPIC had those core capabilities.

Given OPIC's strong financial and programmatic record of promoting economic development while helping US companies invest in developing countries, the US is shortsighted in not providing OPIC with these tools. The executive branch and Congress should redirect $25 million to $50 million of OPIC's annual revenues to providing the financing for technical assistance and equity.

A Post-2015 Agenda

The US has a strong history of leadership in the international development arena—the role it played in the founding of the World Bank and the other international financial institutions, its recognition in the early 1970s of the importance of human development, its contribution to the green revolution and specific health breakthroughs, its lead in responding to emergency situations, its early engagement a decade ago with the private sector and, more recently, its encouragement of innovation.

But the US does not always lead. It has been slow to move away from tied aid, and it remains the lone donor that responds to emergency needs by shipping food commodities thousands of miles from home rather than using more efficient and more rapid local and regional procurement.

This issue is relevant as we enter a period when the development dialogue will be focused on bringing the United Nations' Millennium Development Goals (MDGs) to a close and formulating the post-2015 successor goals. The US role vis-à-vis the MDGs has been mixed. USAID was a prime mover of the concept and specificity of the MDGs in the Development Assistance Committee of the Organization for Economic Cooperation and Development. Unfortunately, USAID was a lone actor within the US government in their formulation, and when the action moved to the United Nations for their adoption, the State and Treasury departments took the lead and became naysayers. It was several years before the US government acknowledged that the MDGs are a good thing, and it was even longer before they were fully endorsed. A repeat of this performance must be avoided with the prospective new set of global goals.

The report of the High-Level Panel appointed by the UN secretary-general lays out a framework and illustrative set of goals for 2015 to 2030.[4] Everyone has his or her own preferred tweaks to the report, but it has received widespread acclaim as the right frame for a new set of global goals. If the final set of goals adopted by the UN stays within the framework of the panel's report, they will then closely reflect a US perspective on global development. The report places a heavy emphasis on the central role of the private sector in promoting sustainable development, and the critical importance of a shared partnership between government, the private sector, and civil

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society in advancing inclusive economic growth. Unlike the MDGs, which were developed in a different time when development was very much about donor assistance, the High-Level Panel's report is not about assistance but about the multiple means of financing sustainable development, particularly the mobilization of domestic resources and international capital flows. More specifically, the report endorses the various elements of liberal democracy that constitute an open, transparent and responsive political system, and it calls on governments to promote the rule of law, property rights and a proper regulatory environment that allows private enterprise to operate and flourish.

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US leadership on the post-2015 agenda needs to be strong but nuanced, clear but not boisterous. Too loud a US voice would make some wary; but a US absence would be interpreted as a lack of support. Senior officials in the relevant US agencies need to be actively involved and articulate the US position on specific issues in the various forums that will be shaping the new set of goals. These officials also need to engage and share views with US civil society organizations, as was effectively done by USAID in the preparation for the Fourth High-Level Forum on Aid Effectiveness in Busan in November 2011. Having a new set of goals that have broad support among American civil society groups and businesses is critical to bringing along the American public and Congress.

Congress is always the big unknown. In 2000, and for several years afterward, it was largely absent from the discussion of the MDGs. There will be too much public attention for this to happen again. The Obama administration and civil society groups need to bring Congress into the dialogue, both to educate congressional members and staff and to listen to their views. There will be no unified consensus among the US government and public on the new set of goals, but there can be a broad coalition that is generally supportive.

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1. On this policy determination, see White House, "Fact Sheet: US Global Development Policy," http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.

2. John E. Morton and Astri Kimball, "The Case for Capital Alignment to Drive Development Outcomes," Overseas Private Investment Corporation.

3. Todd Moss and Benjamin Leo, "A Consolidated US Development Bank: Reorganizing Private Sector Policy Tools in Emerging Markets and Fragile States," Center for Global Development, April 2011.

4. High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development—Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda* (New York: United Nations, 2012), http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf