

A REPORT OF THE CSIS
PROJECT ON U.S. LEADERSHIP
IN DEVELOPMENT

Seizing the Opportunity in Public-Private Partnerships

STRENGTHENING CAPACITY AT THE STATE DEPARTMENT, USAID, AND MCC



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PREFACE

This report examines opportunities and challenges for using public-private partnerships in development, specifically through the lens of the State Department, the U.S. Agency for International Development, and the Millennium Challenge Corporation. Although other agencies in the U.S. government work on international development and engage with the broader private sector, they will not be the focus of this paper even though they may face similar opportunities, challenges, and solutions. Current concerns are how the U.S. government can improve its ability to partner with the private sector and how lessons for creating and maintaining relationships with the private sector can be institutionalized in order to be able to set up partnerships or projects that work to scale and then make them sustainable. Within these larger concerns are questions about what the private sector needs in order to partner with the U.S. government in the development context, and why the Global Development Alliance model used at the U.S. Agency for International Development has been a good example of how the U.S. government has approached private-sector partnerships in a more dynamic way.



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EXECUTIVE SUMMARY

Public-private partnerships can be game-changing mechanisms for solving development problems. They are used to leverage a range of resources, expertise, and access from nontraditional actors to tackle issues from economic growth to building civil society. Because partnerships leverage resources that public agencies cannot easily access, they can be used to bring market-based solutions to public-goods problems such as infrastructure and access to clean water that can catalyze further development. They have been used successfully for more than a decade by U.S. development agencies to create supply chains, increase employment, and support research and innovation, among many other accomplishments.

Despite the increasing popularity of partnerships, significant challenges remain to building and maintaining them. Although other sectors, such as the for-profit private sector and the non-governmental organization (NGO) sector, are seeking greater and deeper partnerships with the public sector in the United States, the ability of U.S. development agencies to partner with others continues to lag. Limited systems, incomplete capabilities, and a lack of incentives in place in U.S. development agencies continue to hamper partnership building, and development agencies are not reaping the full benefits that could come from leveraging powerful private-sector assets.

If we want to take full advantage of these other actors, it will require a fundamental rethinking of how the U.S. programs and delivers foreign assistance to include the range of assets and experience in private-sector and nontraditional actors that have the potential to create transformative solutions to development issues. Effective partnerships bring in the wide range of assets and experiences from private-sector and nontraditional actors that have the potential to create dynamic solutions to development challenges. Grants and contracts from U.S. development agencies must shift from an approach of “biggest wallet with the largest rule book” to a position of “catalytic wallet with a flexible rule book.”

Ultimately, the U.S. government should make partnerships the *starting point* for development projects and programming in a variety of circumstances, including most work in middle-income countries, countries that are graduating from receiving U.S. foreign assistance, and sectors such as supply chain development and economic growth. These contexts are target-rich environments in which many partners are available, which make them obvious candidates for partnerships. In other situations partnerships might be more difficult to build but could supply critical development needs, such as in humanitarian crises, fragile states, or places in which the state does not provide basic services like education or access to clean water. Currently there is no accepted typology for when partnerships could be most effective, but this question should be a part of the longer-term research agenda to help governments determine when to approach partnerships when they program their foreign assistance monies.

This paper will provide an initial survey of the use of development partnerships by selected aid agencies, begin a discussion of current challenges to building partnerships within the U.S.

government, and identify strategic opportunities for change. Because of the increased interest in using development partnerships in U.S. government agencies, the lessons learned from these partnership initiatives during the past 10 years and other models of successful partnership initiatives are important resources.

Although many U.S. government agencies are involved in international development activities and partnerships, this report will make particular use of detailed descriptions from the partnership initiatives at the U.S. Agency for International Development (USAID), namely the Global Development Alliance. The report will also draw on the partnership-building process and capabilities in the U.S. State Department, particularly in the Global Partnership Initiative; the President's Emergency Plan for AIDS Relief; and the Millennium Challenge Corporation (MCC).

To be more effective in partnership building, some overarching challenges should be the focus of current and future reforms in USAID, the State Department, and MCC. This paper will examine some of the problems that hinder U.S. government agencies from being as effective, and offer some initial recommendations:

- The first is the need for clear leadership in the administration, Congress, the top levels of development agencies, and partnership offices within the agencies. Congressional and executive agency leaders often reference partnerships in their speeches and in their internal communications, but they are almost completely divorced from the actual planning, resource allocation, and personnel incentives that animate these institutions. Leaders need to take responsibility for aligning incentives, allocating resources that reflect partnership building as a priority, and supporting processes that enable program design and project planning to include strategic engagement with the for-profit private sector, both local and multinational, and other private actors.
- There must be a fundamental shift in the way that U.S. government agencies prioritize and deliver foreign assistance. This encompasses coplanning with private-sector actors (such as philanthropies, NGOs, local and international firms, and civil-society groups) for program design and planning efforts. Aligning interests in partnerships works best when project development and partnership efforts are codesigned and when partners are not brought in at the end of an internal U.S. government discussion or process.
- Partnerships should be a core part of country strategies and should be a mainstream part of how U.S. government development agencies do their work. In the meantime, there is still a need for centralized money or set-aside money as an incentive and to provide resources for opportunities that come up in the partnership arena.
- As part of moving from an approach of biggest wallet with biggest rule book to catalytic wallet with flexible rule book, agencies also need to embed partnership building into how they think about procurement and other operational issues such as monitoring and evaluation. This report will also address the operational challenges that agencies face in terms of procurement regulations, planning and implementation, partnership governance, monitoring and evaluation, and scalability and sustainability.

1

INTRODUCTION

In the past 10 years, changes in the international development strategic landscape have made public-private partnerships a more mainstream part of development policy. Globalization, deeper integration of economies, marquee partnerships with private philanthropies, global nongovernmental organizations (NGOs), and multinational corporations, as well as recognition that governments cannot solve problems alone, all contributed to an acceptance of the need to work more closely with private-sector actors.¹ Partnerships enable public-sector actors to tackle development issues by leveraging nontraditional resources, expertise, and market-based approaches that can provide better, more sustainable outcomes. Although not a solution to every development problem, public-private partnerships are now seen as a possible approach to address strategic development issues by leveraging the resources and skills of a range of actors in creative ways to reach better development outcomes.

The U.S. government is a global leader in leveraging partnerships with the private sector and is a leader in recognizing and addressing the challenges that remain. Through a series of innovations, sustained leadership, focused resources, and creative bureaucratic bypasses, the U.S. Agency for International Development (USAID) is a world leader in promoting the use of public-private partnerships, and other agencies and donors have emulated and built upon USAID's experience. A recent evaluation of policies and programs in U.S. development agencies carried out by the Development Assistance Committee of the Organization for Economic Cooperation and Development "highlight[ed] U.S. government leadership" in "promoting public-private partnerships."² Despite these accomplishments, partnerships remain marginal to the core work of most development programs at USAID and are even less used by other agencies.

Despite the success of many noteworthy global partnerships, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the emergence of significant, long-term partnership partners like Chevron Corporation and The Coca-Cola Company, partnerships continue to be very labor intensive, require a variety of bureaucratic bypasses, and remain underused among development agency strategies. At the same time, while partnerships are an increasingly attractive concept, new challenges have arisen around engagement. Examples include a technology company that was contacted by 11 USAID partners responding to a USAID request for proposals that required leverage, and a consumer products company that was approached by six different parts of the U.S. government (and different parts of the same agency) to find ways to work together. Agencies need

1. In this paper we will use the term "private-sector actors" to, in general, refer to nongovernmental organizations based both within the United States and overseas. The "for-profit private sector" refers to local and multinational companies. See appendix 1 for table of potential actors in public-private partnerships.

2. U.S. Agency for International Development (USAID), "Statement on Peer Review of U.S. Global Development Efforts," press release, Washington, D.C., July 28, 2011, www.usaid.gov/press/releases/2011/ps110728.html.

Definitions and Models for Partnerships

Selected Definitions of Partnerships

There is a wide range of definitions for public-private partnerships, including:

USAID Global Development Alliance Initiative. Global development alliances (GDAs) are USAID's commitment to change the way we implement development assistance. GDAs mobilize the ideas, efforts, and resources of governments, businesses, and civil society to stimulate economic growth, develop businesses and workforces, address health and environmental issues, and expand access to education and technology.¹

OECD. Arrangements [focused on infrastructure investment] whereby the private sector provides infrastructure assets and services that traditionally have been provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants. [Partnerships operate in] cases where the private operator has some responsibility for asset maintenance and improvement are also described as concessions. Although there is no clear agreement on what does or does not constitute a [public-private partnership], they should involve the transfer of risk from the government to the private sector.²

United Nations. "The public benefits [that come from] not only . . . the financial resources but from infrastructure, expertise and the management skills of the private sector. Businesses can align corporate socially responsible activities with global goals so as to work towards a more stable and inclusive world market,

1. "Global Partnerships," USAID Global Development Alliance, accessed October 11, 2011, www.usaid.gov/our_work/global_partnerships/gda/.
2. "Glossary of Statistical Terms: Public-Private Partnership," OECD, accessed October 11, 2011, <http://stats.oecd.org/glossary/detail.asp?ID=7315>.

to consider the fundamental question of what kind of role partnerships should play in their core strategy.

While partnerships have become a part of development rhetoric, leadership in Congress, the administration, and development agencies should further elevate the use of partnerships to become the *starting point* for development projects and programming in a variety of circumstances, including most work in middle-income countries and countries that are graduating from receiving U.S. foreign assistance. High-level leadership on behalf of partnerships should create incentive systems and facilitate further change in the culture of U.S. development agencies in order to make partnerships more than one-off, sideline projects. Building partnerships needs to be embedded in the various ongoing foreign assistance reform efforts, especially USAID Forward.

embracing . . . global corporate citizenship: advocacy, cooperation on the ground and strategic partnerships.”³

For the purposes of this paper, we will use the following definition: Partnerships are an approach to solving development problems through a coordinated and concerted effort between government and nongovernment actors, including companies and civil society, leveraging the resources, expertise, or market efforts to achieve greater impact and sustainability in development outcomes. Partnerships can be between two or more actors working on a discrete set of projects or several actors working on set of development outcomes based on a platform such as malaria prevention. They can include a range of partners from donor agencies, donor-country for- and nonprofit actors and civil society, to host-country public actors and host-country for- and nonprofit private actors and civil society.

Models for Partnerships

There is a range of potential actors in partnerships, as well as three distinct partnership models.

Financial partnership. A partnership that is based on one or more partners providing funding to a project that is undertaken by small number of implementers (for example, a donor agency, NGO, for-profit development consultancy).

Partnership based on expertise. A partnership that is based on leveraging the competencies, skills, knowledge, or expertise of one or more partners to make a project or set of projects more efficient or effective.

Partnership based on market. Partnerships that align with core business strategies of local and international companies to find market-based solutions to development problems.

3. Amir A. Dossal, “United Nations Fund for International Partnerships” (address to the plenary, World Summit on Information Society, Geneva, Switzerland, December 12, 2003).

Given this increased acceptance of development partnerships in U.S. government agencies, the lessons learned from U.S. partnership initiatives and other models of successful partnership initiatives over the past 10 years are important resources. This is not to say, however, that traditional delivery of development assistance is not necessary. There are areas where this might be the most appropriate approach to development problems, most often in conflict- and disaster-affected regions or in regions in which geostrategic or foreign policy objectives outweigh the kinds of development needs that can be addressed through partnerships. Even in these contexts, though, there is scope for public-private partnerships.

Building partnerships entails a significant number of challenges, including finding the right partners and the right shared problem with the right timing and level of resources, as well as

collaboration across institutional cultures and process, all of which make partnerships difficult to facilitate. Partnerships require significant buy-in, are labor intensive, and often require ongoing funding to maintain. The industry-wide acceptance of the need to solve problems using partnerships leads us to a new set of questions that CSIS will review in this paper and will take forward over the next year:

- How can the U.S. government leverage partnerships with private actors more effectively?
- How can the State Department, USAID, and MCC expand or improve their development partnership capabilities?

2

BACKGROUND

In the past 40 years, levels of official foreign assistance as a percentage of overall financial flows from the United States to the developing world have dropped from 74.8 percent in 1960 to 13 percent in 2011. Meanwhile private flows of capital in the form of investment, remittances, and private philanthropy have grown from 25.1 percent¹ to 87 percent.² During the past 10 years, the George W. Bush and Barack Obama administrations have tripled foreign assistance levels, but the recession and subsequent debt hangover will likely end this 10-year bull market in foreign assistance.³

The U.S. government, though still the single largest donor in the world, is no longer the only major player on the development landscape. Emerging nations as donors, private foundations, private actors, and nongovernmental organizations (NGOs) are now substantial forces in development. Development actors have found new partners with similar “wallets” but smaller “rule books” than the U.S. government and other official donors. Increased use of and innovation in private development finance along with changes in how businesses operate have made for-profit private-sector actors, NGOs, foundations, and diaspora communities into major stakeholders in international development and the global economy.

Business strategies have shifted to make private actors more strategic partners in development. For-profit private-sector actors provide the overwhelming majority of products and services in developed and developing countries. Companies now do business to take advantage of the new resources and markets that have opened in the developing world, freeing companies from previous sourcing, trade, and manufacturing constraints.⁴ Some multinational corporations have adopted as a component of their business strategies an interest in working with other companies, NGOs, and governments to create competitive advantage and social benefit beyond a pure profit focus, thus pursuing business approaches that enhance social outcomes. This mind-set is not ubiquitous among companies, but it is a growing phenomenon. This phenomenon has been described as “connected capitalism,” where companies should “connect the bottom line of their businesses with

1. USAID Global Development Alliance Implementer Training, September 23, 2011.

2. These numbers include in-kind donations and staff and volunteer time; see Center for Global Prosperity, *The Index of Global Philanthropy and Remittances* (Washington, D.C.: Hudson Institute, Center for Global Prosperity, 2011), www.hudson.org/files/documents/2011%20Index%20of%20Global%20Philanthropy%20and%20Remittances%20downloadable%20version.pdf.

3. Hai-Anh Dang, Steve Knack, and Halsey Rodgers, *International Aid and Financial Crises in Donor Countries* (Washington, D.C.: World Bank, Development Research Group, December 2009).

4. These insights were laid out by former USAID administrator Andrew Natsios in “Public-Private Alliances Transform Aid,” *Stanford Social Innovation Review* (Fall 2009): pp. 42–47, www.ssireview.org/images/ads/2009FA_feature_Natsios.pdf.

a social conscience.”⁵ Because they are increasingly connected through the global market, companies, along with NGOs and government agencies, have a stake in addressing emerging global challenges for their own well-being in addition to the well-being of the communities in which they work.

Additional factors drive businesses to engage with government and the nonprofit sector in developing countries. First, in many industries, their future existence and growth as ongoing concerns are tied to countries where traditional business models have to be adjusted and where infrastructure of all kinds is lacking. Second, the drive for basic inputs or agriculture supply chains requires investments and sourcing from a wide set of suppliers in developing countries. Third, the so-called social license to operate—a not-very-well-defined term that often is used in the extractive industry sector implying an implicit or explicit approval from the communities where a company is operating—has become a very well-known concept. Therefore, multisector partnerships become important for for-profit private actors as part of a risk management discussion. Finally, experimentation with new business models has also become an important part of the conversation where businesses have needed other partners—donor agencies, NGOs, and local government—to develop services and products targeted at the poor. This is the so-called base of the pyramid phenomenon or the inclusive business models of the past 10 years.

Global philanthropies and NGOs have grown, bringing substantial new resources to the table. Private institutions like the Bill and Melinda Gates Foundation provide funding for development projects that carry fewer transaction costs than federally regulated aid money. These actors have concluded that the for-profit private sector provides the overwhelming majority of products and services in developed and developing countries. By partnering with the for-profit private sector to find sustainable solutions, private philanthropies and NGOs have found ways to increase the impact and sustainability of their inputs. Private actors and donor agencies have found that, by working with local and global NGOs and philanthropies that have ties to local communities, civil societies and host governments can improve community and host-country buy-in, sustainability, and regional scalability of development projects that aim to accomplish a range of development goals.

Development agencies have tried to leverage the financial, volunteer, and advocacy power of diaspora communities. Remittances, direct investment, and investment in capital markets are significant sources of development finance from diaspora communities. Diaspora communities are also influential in starting and maintaining development projects and in advocating for and engaging in significant amounts of tourism to their home countries. Donor agencies, private actors, and NGOs have explored how to tap into the vast resources of the global diaspora. Partnerships with investments or participation from diaspora communities could bring to the table not only untapped financial resources but also local knowledge and connections as well as long-term stakes in development projects.

Governments have shown that they recognize the shifting resource base. The Quadrennial Diplomacy and Development Review (QDDR) highlights the importance of partnerships by using the word more than one hundred times. This reflects a marked increase in the use of the term in national security documents: 7 times in the 2002 national security strategy, 16 times in 2006, and 44 times in the 2010 strategy. The QDDR is very focused on the State Department and does

5. Katherine Butler, “Former Coca-Cola CEO Pushes ‘Connected Capitalism,’” *Forbes.com*, April 28, 2009, www.forbes.com/2010/04/27/coca-cola-isdell-technology-capitalism.html.

not reference in great detail the central role of the U.S. Agency for International Development in building partnerships and leaves the Millennium Challenge Corporation out of the strategy equation.⁶ Governments and multilateral organizations have felt compelled to respond to the changes in the development landscape and are setting up offices specifically designed to foster engagement with for-profit and nonprofit private-sector actors—companies, NGOs, private philanthropies, diaspora and religious groups, and research institutions. There has been a proliferation of such offices as bilateral donor agencies and multilateral institutions like the United Nations have responded to similar changes in the development landscape. By 2007, 6 of the 22 Development Assistance Committee–country bilateral development agencies and 20 organizations within the United Nations and the Bretton Woods institutions had offices dedicated solely to “promoting public-private partnerships.”⁷

6. Daniel Runde, “The QDDR: A New Emphasis on Partnerships,” *CSIS Critical Questions*, December 17, 2010, <http://csis.org/publication/qddr-new-emphasis-partnerships>; and U.S. Department of State, *Leading through Civilian Power: The First Quadrennial Diplomacy and Development Review* (Washington, D.C.: U.S. Department of State, 2010), www.state.gov/documents/organization/153142.pdf.

7. Andrea Binder, Markus Palenberg, and Jan Martin Witte, *Engaging Business in Development: Results of an International Benchmarking Study*, GPPi Research Paper Series No. 8 (Berlin: Global Public Policy Institute, 2007), www.gppi.net/fileadmin/gppi/Engaging_Business_Final_06222007.pdf.

3

OVERARCHING CHALLENGES AND SOLUTIONS FOR PUBLIC AND PRIVATE ACTORS

Creating and maintaining partnerships is very time intensive and occasionally has an uncertain payoff. Significant obstacles prevent partnerships from being as widely used or as effective as they could be. The problems that hinder agencies, firms, and organizations from entering into partnerships for development projects fall into five broad categories: need for sustained leadership, link to mission, programming and budget allocations, changing the incentives, and further change in culture to enable partnerships. These are not new and have been a part of the development partnership discipline for several years. Many of these problems stem from rules, systems, and a culture within U.S. government agencies that is slow to adapt to the reality of the development landscape that partnering with the private sector, including companies and philanthropy, is now critical for long-term impact and success.

Need for Sustained Leadership

Partnerships need stronger leadership at the top levels of development agencies. Development agency leaders need to take responsibility for creating environments that enable project planning to include strategic engagement with the for-profit private sector, both local and multinational, and other private actors. Congressional and executive agency leaders often reference partnerships in their speeches and in their internal communications, but they are almost completely divorced from the actual planning, resource allocation, and personnel incentives that animate these institutions. Systems within the agencies will have to change. Congressional leadership and attention, as well as strong leadership within the Barack Obama administration, will be needed for them to incorporate partnerships into these planning and appropriations processes in the various development agencies. In the upcoming reorganization at the U.S. Agency for International Development (USAID), partnership building—through USAID Forward—should be made a part of the reforms.

One challenge for the U.S. government is that no agency or office has been able to successfully coordinate or ensure information sharing by serving as a center point for forming and supporting public-private partnerships. There have been several efforts to address this, including the creation at the State Department of a special representative for partnerships that evolved into the creation of the Global Partnership Initiative (GPI). GPI has the mandate to do this but to date has received only limited cooperation from other agencies.

Deeper engagement would help with issues such as having one particular company visited by six different parts of the U.S. government to talk about partnership building. While not serving as a traffic cop, GPI might support more frequent information sharing and some stronger but still light-touch interagency coordinating. GPI was created to address the problems in coordinating partnership building across development agencies. GPI has been given the mandate in the QDDR to do this within the State Department but can only loosely coordinate across the U.S. govern-

ment. Although GPI has been able to convene high-level meetings between agency staff to share knowledge and coordinate on partnership building, it may need some programmatic funding to facilitate new partnerships or to provide for missing incentive or innovation funds in order to spur new partnership development in embassies.¹

The Presidential Policy Directive on Global Development put forth by the Obama administration referenced the need for the creation of an Interagency Policy Committee of Global Development that would “set priorities, facilitate decision-making where agency positions diverge, and coordinate development policy across the executive branch,” led by National Security Council (NSC) staff.² This interagency committee could include partnerships on its agenda, with GPI serving as a high-level partnership problem solver. A coordinating body at the NSC or the GPI should act as a point that partnership builders from inside or outside of the U.S. government could contact with questions about how to build partnerships, whom to contact, and what instruments and mechanisms are in place that can be used to help form partnerships. Determining the appropriate agency to lead this effort is complicated because of interagency competition. Strengthening GPI would help with overcoming the emerging challenge of helping private actors identify whom to contact in order to build partnerships, particularly in time-sensitive crises, as well as align internal policies and priorities on how to build successful partnerships. A coordinating body would also help deal with cross agency organizational problems in areas that have input from a range of offices in several agencies, like crisis relief, in which major multinationals, local private companies, local and global nongovernmental organizations (NGOs), and religious and diaspora groups all play major roles in terms of humanitarian assistance, as well as minimize interagency competition for the variety of private-sector funding and partners.

At the operational level in private institutions and public agencies, there must be both champions for partnerships and dedicated staff to enable formal processes for forming and managing partnerships in order to move past pilot or one-off partnerships that are difficult to replicate or scale within the institution itself.

The Global Alliance for Clean Cookstoves is an example of how advocacy and leadership at the highest levels can engender the growth of a multistakeholder partnership. Secretary of State Hillary Rodham Clinton has been a strong supporter of this global alliance and has helped to energize and mobilize 175 partners from across various U.S. government agencies, donor countries, the for-profit private sector, and the NGO community. Her advocacy for the alliance has been a major component of its progress.

Link to Mission

A mismatch often exists between public and private interests and priorities for partnerships. Private- and public-sector actors bring a variety of explicit and “implicit interests” to the table

1. Some interviewees commented that a cross agency convening or knowledge-sharing office should be staffed by people with long-term experience working with the private sector in partnerships but should not itself be active in pursuing partnerships. Several interviewees commented on the need for any convening body to be interagency neutral, which may be difficult if GPI is also charged with building partnerships for the State Department.

2. “Fact Sheet: U.S. Global Development Policy,” White House, Office of the Press Secretary, September 22, 2010, www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.

Global Alliance for Clean Cookstoves

Secretary of State Hillary Rodham Clinton announced in September 2010 the creation of the Global Alliance for Clean Cookstoves, a public-private partnership led by the United Nations Foundation. The alliance aims to develop a global thriving market place for clean and efficient cookstoves in an effort to save lives, empower women, enhance livelihoods, and combat climate change. Traditional biomass-fueled cookstoves have been shown to have harmful health effects (two million people a year die from smoke exposure), are inefficient, and environmentally degrading.¹ The alliance's "100 by 20" goal has a target of 100 million households adopting clean cookstoves by 2020. The alliance aims to be a convener for the sector, a broker of partnerships and a market enabler, a champion for the issue of cookstoves to spur adoption of clean cookstoves, a promoter of international standards for cookstoves, and a sector knowledge manager.² It aims to bring together multiple different types of stakeholders including donor governments, national governments, multinational companies, NGOs, local community-based organizations, and manufacturers of cookstoves.

Thus far the State Department has played an important contributory role in convening stakeholders across agencies of the U.S. government, providing policy guidance and helping to energize support for the alliance. To address this challenge, every U.S. federal agency was part of the original commitment to the alliance. The initial U.S. financial commitment to the alliance was \$50 million over five years. Most notably, the State Department, the Department of Health and Human Ser-

1. Marian Leonardo Lawson, *Foreign Assistance: Public-Private Partnerships (PPPs)*, Report no. R41880 (Washington, D.C.: Congressional Research Service, June 13, 2011), p. 8.
2. Radha Muthiah, "Global Alliance for Clean Cookstoves" (presentation delivered at CSIS on September 28, 2011, as part of the CSIS Energy and Development Series).

when creating a development partnership.³ Those interests are usually geographic and sectoral (focused on a region or industry), financial (focused on how much each partner is willing to invest and what returns are expected), temporal, and relational (focusing on implementing and funding partners or on relationships between competing firms in supply chains). Interests can sometimes take time to become clear; however, understanding interests is necessary for defining success and navigating the variety of interests when conditions change or scale up. This is true whether working with private actors, NGOs, private foundations, or diaspora and religious groups.

3. USAID, *The Global Development Alliance: Public-Private Alliances for Transformational Development* (Washington, D.C.: USAID, Office of Global Development Alliances, January 2006), p. 31, www.usaid.gov/our_work/global_partnerships/gda/resources/GDA_Report_Jan2006_Full.pdf.

vices, the National Institutes of Health (NIH), the Centers for Disease Control and Prevention (CDC), the Department of Energy (DOE), the Environmental Protection Agency (EPA), and USAID have mobilized financial resources, experts, and research and development resources for this effort. The initial commitments made by the U.S. agencies include \$9 million from State Department and USAID, \$6 million from EPA, \$24.7 million from NIH, \$1 million from CDC, and \$12.5 million from DOE. The State Department and USAID have also led a number of initiatives under the alliance, including creating partnerships with local and multinational private-sector partners in several countries, funding field assessments to understand the relationship between climate change and cookstoves, and initiating a supply chain for liquefied petroleum gas (LPG) in Haiti to convert commercial charcoal vendors to being LPG vendors. The State Department has worked closely with the alliance in inviting other donor governments and high-profile celebrities such as Julia Roberts as alliance ambassadors to bring attention to the issue of clean cookstoves.³ Most recently, the United States has announced an additional \$55 million for the alliance, thereby increasing the total commitment to \$105 million.

The alliance currently has 175 partners. In addition to the support by the U.S. government and other country governments, multinational companies are partners, including Shell Corporation with its \$6 million founding commitment to the alliance, and Dow Corning with its \$5 million unrestricted contribution announced at the Clinton Global Initiative this past September. Private companies have been interested in this unique, market-based approach that brings together expertise from a variety of global stakeholders to tackle a development and environmental issue while developing markets worldwide.

3. Department of State, “The United States Commitment to the Global Alliance for Clean Cookstoves: Year One Progress Report,” Fact Sheet, Department of State, Office of the Spokesperson, September 22, 2011, www.state.gov/r/pa/prs/ps/2011/09/173774.htm.

Finding ways to engage the private sector in the development of a country strategy and project development is a challenge for all of the agencies we reviewed. There must be a fundamental shift in the way that U.S. government agencies prioritize and deliver foreign assistance to embed coplanning with private-sector actors, including philanthropies, NGOs, local and international firms, and civil-society groups into their program design and planning efforts. Aligning interests in partnerships works best when project development and partnership efforts are codesigned and when partners are not brought in at the end of an internal U.S. government discussion or process. Under the current approach, partnerships with private-sector actors are mainly made to fit into the programs and priorities outlined by the partnering public agency after it has designed a program. Not allowing partners in at the front end discourages a larger number of partnerships.

Programming and Budgeting Allocations

To be more effective in using partnerships, the U.S. government should embed partnership development and a mechanism to scan for partnership opportunities at the front end of program development. A typology for conditions in which partnerships could play a critical role should be used for reviewing the state of development, the vibrancy of the local private sector, the presence of foreign direct investment, and the extent that these factors are necessary for partnership building. Although some contexts offer ripe environments for connecting with private-sector partners, there are contexts in which partnerships could be instrumental in addressing a major development need or changing the way that people access basic services. An interagency diagnostic tool that would facilitate the mapping of private investment and private actors as well as the institutional bottlenecks to growth would be helpful for determining the contexts in which partnerships could be the most critical to development or provide the most impact.

U.S. government agencies plan as though the United States is the largest contributor to development programs. This, however, is no longer the case. Government agencies should plan according to their new role, recognized by the Obama administration but still not operationalized, as a convener and facilitator for development and with the use of U.S. dollars to catalyze long-term, sustainable solutions to development issues. U.S. country strategies must move beyond government-to-government conversations to include wider and deeper consultations with the private sector from the beginning, incorporating private-sector needs and interests into the programmatic allocations. Instead of working private actors into preexisting priorities and strategies for the country offices or missions, private-sector actors should have a hand in developing areas of focus and strategy at the moment of “programmatic agnosticism,” when a government agency has not yet decided where, how, and what do with its resources in a given country or sector, in order to incorporate needs identified by the private sector.

U.S. agencies still lack a good platform or mechanism for incorporating private-sector voices into country strategy development. Mechanisms for engaging the private sector in a systematic way are limited and are based on the assumption that the U.S. government agency should take the leading role in the partnership while other actors provide support. To create more meaningful and effective partnerships, the U.S. government must be able to share risks and rewards with private-sector counterparts and seek to share decisionmaking in more collaborative ways with these partners, from planning to implementation to impact evaluation. An example of a successful co-development of country strategy through a partnership is the Angola Partnership Initiative (API). In 2002, Chevron created the API in order to facilitate partnerships with other donors and NGOs in Angola. Over time, USAID and Chevron codesigned programs in a number of sectors, coissued requests for proposals (RFPs) and codecided on implementers in areas such as microfinance and capacity building at the municipal government level. This approach has been all too rare in how U.S. government agencies think about partnerships.⁴

Filling out applications or grant proposals to conceive and develop partnerships is a cumbersome process and does not make sense for many potential partners, including private philanthropy, for-profit private actors not in the development consulting business, or non-grant-seeking NGO actors. This process creates a system in which many development actors that the U.S.

4. USAID, *Alliance Industry Guide: Extractive Sector* (Washington, D.C.: USAID, International Development Office of Development Partners/Private Sector Alliance, March 2010), www.usaid.gov/our_work/global_partnerships/gda/extractives_guide/USAIDExtractivesGuide.pdf.

government wants to have working with U.S. government development agencies must depend on NGOs or other third-party actors to negotiate transactions for forming and managing partnerships. Having a broker may not be necessary.

In the case of multistakeholder alliances, there is a strong need for a broker or a platform, and that is often an NGO or other third party. Multistakeholder alliances can be difficult to organize and, because of their nature, can potentially have many competing interests. They often require platforms that aim to accomplish specific goals, and they allow interested parties to contribute through a vehicle of some kind. In such cases, the role of a convener or broker can be critical to the success of establishing and maintaining a platform, organizing the partners, and coordinating funding and actions.

Time frames and budget cycles complicate the application, planning, and implementation processes. Although the State Department and USAID have worked at improving their application review and partnership-planning processes during the past decade, they remain slow on the front end, and they are sometimes too inflexible and opaque about when and how decisions are made on partnership proposals. Similarly, because of the U.S. government budget allocation process, the investment time frame that NGOs, foundations, and private actors are looking for in a partnership are difficult to align within the operating frames available in an agency. Private actors look at the government and see a partner that is too slow in getting started and has trouble making multiyear funding agreements.

Changing the Incentives

To form a partnership that works, incentives must be aligned between the agencies and organizations. This can be difficult for the simple reason of mismatches in what drives public- and private-sector staff and institutions. Agencies, NGOs, philanthropies, and for-profit private actors should establish additional institutional incentives to encourage the establishment of partnerships; these can include incentive funds or linking career development to demonstrated success in using partnerships. Institutionally, country representatives of U.S. government development agencies have little incentive to use partnerships because they often do not get the necessary technical assistance or credit for using them. To create incentives for agencies to shift their cultures and mind-sets, government officials will have to move past the rhetoric of the importance of using partnerships. They must tie partnerships to significant adjustments in how agencies program public monies and to more specific career incentives to invest their time and attention on partnership building.

Development agencies should put in place institutional incentive structures in order to encourage staff members to leverage the private sector for expertise and assets when attempting to address a development problem. Incentives should be built into not only RFPs but also into performance evaluations and career advancement of staff. For instance, at the Millennium Challenge Corporation, staff members might have performance evaluations tied to whether the project included private-sector partners and to what extent other resources were leveraged or catalyzed. Institutional incentives should include monetary incentives such as awards or prizes, budgetary headroom for developing partnerships and leveraging outside funding, a review of promotion precepts so as to further incorporate successful or innovative use of partnerships, or extra training days.

Catalyzing Private Lending Using U.S. Government Procurement Power: The PEPFAR Impact Investment Model in Kenya

The President's Emergency Plan for AIDS Relief (PEPFAR) has piloted in Kenya a new model for developing partnerships, "Impact Investment Public Private Partnerships." To date, partnerships with private actors in the field have "generally taken the form of donation matches with corporate social responsibility groups for one-off programs."¹

Under the new model, "companies contracted to provide goods and services to PEPFAR programs use their PEPFAR contracts as collateral to attract private investment, rather than seeking grant funding from PEPFAR." PEPFAR will contribute to the partnership by "assess[ing] and communicat[ing] its programmatic demand for certain goods and services, identify potential corporate service/supply partners, and facilitate private financing for those partners where appropriate." This will help to catalyze further private investment and provide companies with a comfortable forecast for demand on which to base projections of return on investment.

Although PEPFAR points out that a number of examples of the impact investment partnership model exist, PEPFAR has tried through a proof of concept initiative to "actively harness" PEPFAR's purchasing power to facilitate partnerships with private investors that accomplish PEPFAR's development goals. A partnership was developed using this model in Kenya that will use the impact investment model to "catalyze the local production of reagents for rapid diagnostic tests." Under current practices, reagents and controls are imported from the United States and other countries, a process that is both expensive and takes up a large part of the shelf life of the products. According to a report released by USAID and PEPFAR, "the case for local production in Kenya is strengthened by the existence of a fully equipped reagent manufacturing facility built recently by the Kenya Medical Research Institute in collaboration with the Japan International Cooperation Agency." Based on PEPFAR's demand for reagents, there is an opportunity to attract private investment in order to expand the facility to increase local sourcing of reagents.

An early evaluation of the partnership meets the early success criteria for the proof of concept for the impact investing public-private partnership model, but it is too early to measure impact on PEPFAR's cost expenditure and program impact. However, it is expected that the partnership will improve efficiency in sourcing reagents for PEPFAR as well as provide local jobs and develop human capacity.

1. This description of PEPFAR's role is based on Rachel Lawley, "Engaging Venture Capitalists, Foundations and Other Investment Partners in PEPFAR Partnerships," U.S. Agency for International Development, GDA/PEPFAR Office, October 2010.

Ideally, in the long run, partnerships would be integrated into country strategies and programming to the point where extra incentives would not be necessary to encourage partnership use, but until then extra incentives are necessary in terms of advancing the opportunities and proving the model.

Incentives that encourage the private sector to partner with development agencies are also critical.⁵ For example, intellectual property issues are an increasing part of the development landscape, and designing partnerships around developing or distributing a new piece of technology will be a big part of the development future. Private actors will not have any incentive to enter into an alliance in which their intellectual property is not protected or where intellectual property issues are not thought through. Partnerships that attempt joint research and development (R&D) must establish in their initial structures who will have ownership over intellectual property and the product if or when it is developed. Often government agencies will choose to give up intellectual property rights in order to help develop a technology that will provide a social benefit, but in these cases care should be taken in developing the partnership so that public funds are not simply subsidizing research that would be done by business anyway.

There should also be incentives for coordination, not only between agencies but within agencies as well. One challenge born of the success of high-profile partnerships with major companies like Starbucks or Cisco Systems is that they end up having people in various agencies, or various offices within agencies, approaching those companies to build even more partnerships. There must be incentives to encourage staff within agencies to coordinate, cooperate, and engage with each other.

Further Change in Culture to Enable Partnerships

There must be a continuing process of cultural change to address the lingering bias in U.S. government development agencies against for-profit private-sector actors. This mind-set is damaging to the U.S. government's relationship with private actors that could prove to be strategic development partners. Agencies must adopt a worldview that sees the for-profit private sector and other non-traditional actors as core actors in development and not simply as actors to use when government resources and expertise do not work. Unfounded negative perceptions of the private sector among some professionals in U.S. government development agencies limit partnership formation and implementation by making it harder to build a partnership of equals.

Partnership building remains personality driven. Given the many bureaucratic obstacles to creating partnerships and the need for champions, country directors and other public-sector principals must be personally invested in forming new partnerships and involving private-sector actors in development projects. In most cases, partnerships are built in the field through country offices and country-office staff. In many circumstances, frequent changes of mission directors and personnel in country offices of departments, agencies, NGOs, and private actors can cause discontinuity in partnerships or disrupt positive momentum. A number of successful partnerships have ended because of a lack of personal interest from a leader or manager on one side.

The United States has the tools and mechanisms to carry out successful development projects through partnerships in a more widespread and systematic way, but it lacks the human capacity

5. For a model on joint public-private R&D initiatives, see the Defense Advanced Research Projects Agency model, which helps design joint scientific research with private-sector actors.

to do so. Agency staff often do not have the vocabulary or the for-profit private-sector experience to reach out to and engage with for-profit private-sector actors on their terms, including knowing what information for-profit private actors will need from them in order to be decisive in negotiations. Staff should have the ability to coordinate across sectors, and part of this means being able to speak to business and NGO interests while being comfortable with U.S. government procurement and contracting processes. Exposing planning and development staff consistently to private actors will help them learn how to speak the language of private-sector actors and facilitate closer engagement.

In addition, staffing needs reflect the mind-set and priorities of the agencies, and new hires should have competencies in working with the private sector or should have training to develop those skills. One encouraging area is the increasing use by USAID of private-sector officers in the field in countries that have large and growing for-profit private sectors.

4

OPERATIONAL CHALLENGES

In addition to the broad, systemic challenges addressed above, a series of operational challenges remain for building partnerships in U.S. government agencies:

- **Procurement.** How do we secure resources to enable partnerships? How do we maximize the impact of our dollars? How do we use U.S. funds to leverage other sources of capital, change the way that development is done, or encourage research in technology and innovative solutions to development problems?
- **Planning and implementation.** How do partners find each other and coordinate actions? How much weight is given to the interests of various parties during the planning stage?
- **Governance.** How are resources allocated? How do we pick leadership? How are decisions and communications handled?
- **Monitoring and evaluation.** How do we measure the impact of us working together compared with not working together?
- **Sustainability and scale.** Do we continue to work together after five years or do we end the partnership? How do we grow this? Do we seek additional partners? Should we have an ongoing funding mechanism?

Although many of the operational challenges use the U.S. Agency for International Development (USAID) as an example because it is a good proxy, the operational challenges can be equally applied to the Millennium Challenge Corporation (MCC) and the State Department. USAID's approach of working with an ecosystem of partnerships focused on implementing project-based work allows USAID to build partnerships with less difficulty than other agencies. Other agencies' operating approaches make partnership building much more difficult: MCC and the World Bank focus on bilateral negotiations with host-country governments, the International Finance Corporation (IFC) can have a bias toward counting "success" to mean private money paying for IFC to self-implement a technical assistance program, and the United Kingdom's Department for International Development has until recently made budget support the primary means of delivering foreign aid, making it difficult to partner with the private sector.

Operational Challenge: Procurement

Available mechanisms for procurement are not flexible or adaptable enough to incorporate new opportunities in the quickly changing for-profit private-sector landscape in many developing countries. Accountability measures also present a considerable encumbrance on private actors and nongovernmental organizations (NGOs) that seek public-sector funding. In spite of the regulatory bypasses in place, current procurement mechanisms remain inflexible, and they limit the ability to

bring new partners and ideas to the table. Agencies need better ways to connect with private actors and private foundations where strategic interests align. Grants, credit, and contracts are given via traditional funding mechanisms to a company or organization that implements projects, leaving out those who have innovative ideas or technologies but no capability or interest in project implementation. These funding mechanisms are therefore unable to tap resources in academia or in the general public that possess innovative ideas or technology but lack implementation capabilities.

USAID and other federal agencies have made significant efforts to make it easier to work within the current set of procurement guidelines. This includes creating public-private partnership “windows,” making creative use of gift authority, making grants where appropriate to for-profit private actors to cost share, and leveraging USAID’s “other” authorities to create the Collaboration Agreement. Congress also recently granted broad prize authority to all federal agencies through the America COMPETES Act.¹ However, the existing procurement regulations in the State Department, USAID, and MCC remain challenging and burdensome for the creation and implementation of public-private partnerships.

USAID designed the Global Development Alliance (GDA) to allow for flexibility in its funding mechanisms. It developed a vehicle to allow anyone to come to USAID and have a conversation about alliances through its Annual Program Statement (APS), which “invite[s] good ideas from prospective partners”² with the goal of promoting competition and transparency in contract and grant awards.³ During the past nine years, changes have been made to how the GDA APS has been used. Some of those interviewed remarked that the GDA APS is unnecessary because of changes to how the U.S. government considers competition in procurement and that the original APS model was an invitation for traditional USAID partners to broker relationships for partnerships at the tail end of a process of program design and asset allocation.⁴ USAID’s policy guidance in the Automated Directive System (ADS) Chapter 303.3.6.5, “Exceptions to Competition Requirements” states:

USAID does not require competition for assistance awards when one of the following exceptions applies and its use is justified and approved in writing. . . .

a. Exclusive or predominant capability

USAID does not require competition when it considers a recipient to have exclusive or predominant capability based on the following criteria: Participation in a Global Development Alliance, USAID’s business model promoting public-private alliances as a central element of the Agency’s strategic assessment, planning, and programming efforts.⁵

1. Tom Kalil and Robynn Sturm, “Congress Grants Broad Prize Authority to All Federal Agencies,” White House, Open Government Initiative, Washington D.C., December, 21, 2010, www.whitehouse.gov/blog/2010/12/21/congress-grants-broad-prize-authority-all-federal-agencies.

2. Agency for International Development, *The Global Development Alliance: Public-Private Alliances for Transformational Development* (Washington, D.C.: USAID, January 2006), p. 31.

3. Ibid.

4. One consideration when selecting private-sector companies is that, although agencies should make themselves open to working with major companies, they should be mindful of helping a company gain a competitive advantage by distorting an industry through selecting one industry standard over another.

5. Agency for International Development, *ADS Chapter 303: Grants and Cooperative Agreements to Non-Governmental Organization*, ADS Handbook Series Washington D.C.: USAID, September 23, 2011), www.usaid.gov/policy/ads/300/303.pdf.

This may obviate the need for an APS as a mechanism to bypass competition regulations in order to facilitate conversations with the private sector; however, it is unclear how USAID will use the APS or ADS 303.3.6.5 in the future. In addition, although the APS may continue to be issued from Washington and continues to be used in country offices, some people outside of the USAID ecosystem, and sometimes people inside of USAID, are uncomfortable using it, and the APS assumes that the private sector may need to be responsive to USAID's definition of development programs.

Under any process it is difficult to imagine a Fortune 500 company submitting a proposal. Through the APS, NGOs and other implementing actors such as development consulting firms end up taking on the roles of management, outreach, and proposal writing. This often leaves the company out of what should be a vital dialogue between the U.S. government and a potential partner. In addition, NGO actors have commented that writing partnership proposals requires a lot of specificity, but they take so long to go through the internal process that conditions and opportunities change, rendering the specifics of the proposal out of date and somewhat irrelevant. Although an APS is useful for signaling that U.S. agencies are open for business, it is a cumbersome process that fosters a broker-in-the-middle relationship with for-profit private-sector actors that may not allow for a full dialogue between the U.S. government agency and for-profit partners.

Outside of the GDA exception, the Federal Acquisition Regulations (FAR) require that government agencies awarding contracts to private actors must ensure that there is a transparent and competitive process to receive the money. The FAR assumes a donor-implementer relationship where this approach may not be appropriate in all contexts. Most private actors in the context of partnerships are not willing or able to approach the government under a predetermined development goal and undergo an extensive bureaucratic process—certainly not just to make bids.

Donor agencies, research institutions, and private actors are increasingly looking to partnerships to find new ways to support joint research and development (R&D) and find new delivery methods for development solutions. Partnerships that make use of joint R&D or innovative delivery solutions have been able to change the way that the poor access basic needs like health care, clean water, nutrition, and their paychecks through innovations in science and technology and service delivery methods. Procurement methods for engaging in research and encouraging innovation and knowledge sharing are limited. Prize authority and the Grand Challenges have been authorized for use in USAID, and, although they are promising, they are just getting started and their use to date has been limited.

Recommendations

- To allow for flexibility when addressing private-sector actors who have calendars and time frames different from U.S. government agencies, there should be a system to allow for exceptions or waivers to allow successful programs to continue or better ways to take advantage of new opportunities. Procurement contracts continue to remain rigid and inflexible, making it difficult to scale or continue partnerships that work. Requests for exceptions or waivers to allow successful partnerships to continue past the official end date set in the contract should go through the mission directors or a central procurement officer with a bias toward a favorable review.
- All requests for proposals need to include increased points for partnership building. At the same time, if the U.S. government wants to build direct relations, it is going to have to invite

private actors to participate at the program design stage. Project managers should focus on incorporating partners into their project design process where they are codesigners and coimplementers.

- Grants and contracts from U.S. development agencies may need to change to reflect a paradigm other than “biggest wallet with the largest rule book” to a position more like “catalytic wallet with flexible rule book.” Global partnerships that involve several major actors can be useful at addressing issues, but they take up significant amounts of staff time and run into procurement challenges. Thus, they require more flexible procurement approaches. In some specific instances, such as the GAVI Alliance, the word “contribution” was used in the appropriation of the money, which meant that the purpose of the money was achieved once it went to the GAVI Alliance, thus getting around the usual difficult and time-consuming accountability process.
- USAID has developed global framework agreements, and these need to be used more often. Global framework agreements encourage longer-term relationships with private actors, but they are not legally binding contracts. They are agreements between companies or private foundations and USAID to work together over a series of years. They carry reputational and social risk for both the private actor and USAID. Projects are determined jointly every year, and funding for the projects is multiyear, allowing them to be sustainable. USAID partnered with Coca-Cola to do a series of water development projects in the Water and Development Partnership, which has had a combined investment of \$20.4 million since it began in 2005.
- Better use should be made of collaboration agreements. The GDA initiative instituted a broad range of reforms to encourage private-public collaboration and created an incentive fund to support demonstration projects. Collaboration agreements were an important procurement innovation back in 2005. Until now collaboration agreements have been used less than half a dozen times. These agreements go beyond grants or contracts and allowed the U.S. government to give direct grants when necessary to private companies if there was an overriding development benefit.
- There is a need for U.S. government agencies and the U.S. Congress to revisit the use of advance market commitments (AMCs). Some governments and private donors have subsidized research and innovation, particularly in the medical and pharmaceutical field, by offering AMCs. AMCs are binding agreements up to a certain dollar amount to purchase a product once it has been developed, allowing a company to produce products, such as vaccines, that can address development problems without fear that they will end up holding on to large inventories. AMCs allow for R&D of patents and products, market creation, scalability, and first-mover advantage while addressing a development need such as vaccinations or biotechnology. The purchased products can be distributed in areas of need at the same time that they help to create a market for similar products to be sold. Currently, appropriations measures for using AMCs are unclear, and some observers are wary of what seems like corporate welfare, but procurement mechanisms in the State Department, USAID, and MCC should be adjusted to allow for the use of AMCs and other creative financing mechanisms that can work to solve problems outside the realm of economic development.

Operational Challenge: Planning and Implementation

The planning process in U.S. development agencies is often too long and too inflexible to allow for easy engagement with private-sector actors. In addition, the public sector's process for engaging private actors often happens only at the very end of a long process, making it very difficult to coplan and codesign together. Opportunities often arise with new partners, but they do not fit precisely within the original compact design or mission strategy or a particular country mission. Without strong, country director-level leadership for partnerships, new opportunities for potentially successful partnerships are often passed over because of inflexibility in the procurement or contracting cycles.

Integrating partnerships into sector assessments and creating incentives for agencies in country to use partnerships often do not occur. The programming process lacks clear guidance on the use of partnerships, and staff members only partially see their career advancement as being tied to the use of partnerships.⁶ Most leaders in development agencies are measured on the impact of the dollars they spend, not on resources that catalyze other resources or how they build partnerships with others to meet challenges.

Recommendations

- In almost all agencies, some flexible programmatic resources need to be identified to take advantages of opportunities that present themselves outside of the purview of an already developed strategy. How money is made available makes a big difference. In the cases where a USAID mission is closing or is in a middle-income country, there is a case to be made for spending all or almost all of the programmed funds in partnership with others. These funds should not be made available on a use-it-or-lose-it basis, but they should enable partnership builders in countries to take advantage of opportunities that come up after the planning phases have been completed. Setting aside 15 percent of MCC compact money for opportunistic partnerships might be part of every compact going forward.
- The private sector needs new ways to have input into project conceptualization. Opportunities for risk mitigation, technical assistance, and catalytic funding have to be clear to for-profit private-sector actors.
- Incentive structures have to be built into agencies to encourage innovative, high-quality, game-changing partnerships that use the private and non-profit sectors throughout the strategy development and implementation phases.

Operational Challenge: Governance

Governance structures have an important role in structuring who has input and how much weight that input is given. The most important challenges for governance within partnerships fall into three main groups: framing, decisionmaking, and communications. Within each of these major categories are several questions, including how to allocate resources, how to make decisions about

6. One exception was the incorporation in the precepts used to promote into the Senior Foreign Service at USAID back in 2003.

Niger Delta Partnership Initiative: Chevron and USAID Seek Greater Impact by Working Together

Nigeria's Niger Delta region represents one of the world's leading development challenges. The communities of the region are challenged by environmental threats. There are major development challenges facing the region; these include conflicts among communities for resources and between communities and elements of the petroleum industry, and a lack of relevant economic and other social development data on the region. The Niger Delta Partnership Initiative (NDPI) Foundation programs are designed to ease some of the primary challenges faced by Niger Delta populations. The major goals of the NDPI include:

- Economic development aimed at stimulating non-oil-related growth in the local economy and creating a more diversified range of economic opportunity for the people of the region.
- Capacity building to improve local government institutions and strengthen civil society organizations that seek to empower communities.
- Peace building to raise awareness and understanding of the impacts as well as the drivers of conflict and help promote improved dialogue and reconciliation.
- Analysis and advocacy to generate actionable data relevant to the NDPI Foundation's development agenda.

NDPI was established in 2010 with a five-year, \$50 million donation from the Chevron Corporation. The initiative works to form partners at the village and global levels with the aim of improving the socioeconomic status of the people of the region. It also includes funding from the Nigerian government, local and municipal governments, and other international bilateral donors, including US-AID, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) (formerly

strategy and expectations, who is at the table, how to allocate votes and voice. If a single firm gives more money than any other, should it have more weight in the planning and decisionmaking process? Governance is about how a partnership is formed, the voting and decisionmaking structures, and membership. Governance issues cover representation, roles and expectations, and resource allocation within a partnership as well as how to include partners in planning processes, and how much weight to give each partner in the partnership.

There have been a variety of approaches to this challenge. Often these arrangements are expressed in memorandums of understanding (MOUs) if two or three partners are involved. In other cases, there are more complex governing arrangements, especially of multistakeholder partnerships. In addition, in contexts where development problems have historically been sorted out in government-to-government discussions, the idea of including the for-profit and nonprofit private sectors has led to work-arounds that do not reflect the role of specific private-sector actors in a fully appropriate way.

Deutsche Gesellschaft für Technische Zusammenarbeit [GTZ]), United Nations Development Program (UNDP), International Youth Foundation (IYF), and Engineers Without Borders (EWB). The initiative was established as a five-year program to build relationships and partnerships in the Niger Delta region. The NDPI Foundation is governed by its seven-member board of directors. The foundation expresses its independence as a charitable institution by allocating four of its seven seats to experienced non-Chevron professionals, with the remaining three seats filled by Chevron employees.

Relationship with USAID

NDPI builds on a relationship between Chevron and USAID that, during the past decade, has promoted development projects in six countries in Africa, Asia, and Latin America. USAID's partnership with Chevron in Nigeria is one of the largest corporate partnerships that USAID has built to date. NDPI closely mirrors the significant success of Chevron's partnership with USAID in the Angola Partnership Initiative, which started in 2002 and that helped rebuild Angola after decades of civil war with a focus on rural development, capacity building, and access to finance. The MOU between NDPI and USAID establishes that each will contribute \$25 million during a period of four years to NDPI to promote a range of programs that are to be jointly developed. Chevron's contribution will be drawn from its initial endowment of \$50 million to form NDPI.¹ The programs plans include a developing civil-society small grants program, a local governance program, a conflict management program, and an agriculture value chain program.

1. Chevron Corporation, "Chevron and USAID Partner to Improve Living Standards in the Niger Delta through \$50 Million Alliance," press release, February 17, 2011, www.chevron.com/chevron/pressreleases/article/02172011_chevronandusaidpartnertoimprovestandardsinthenigerdelta.news.

Multistakeholder and multicountry alliances are gaining prevalence; these alliances approach governance in a variety of ways. The question of how to fairly represent private actors and NGOs in voting and decisionmaking bodies is critical. The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) has a governance structure based on the United Nations system of representation, with a board of voting representatives for groups of donor countries, private foundations, NGO representatives, and a for-profit private-sector representative. As in the UN, the positions are filled on a rotating basis. Although this model ensures that all partners will eventually have a seat at the table no matter what resources are leveraged, it also means that private actors like Chevron, which made very large donations to the Global Fund, have less of a voice than perhaps is warranted compared with the money it has contributed. Other multistakeholder partnerships, like the GAVI Alliance, are also based on the organizational structure of the UN, and, as a whole, there is still room for the development of new models, approaches, and experience in shared governance.

Recommendations

- A streamlined decisionmaking structure must be set up in the very early stages of the partnership. Aligning actions and incentives is a difficult process and requires a significant amount of time and effort. Managing a partnership with several actors and decision points is difficult at the best of times. To create communities of trust within the partnership and an environment for learning and expansion by both (or all) partners, governance structures must be inclusive and specific, designating specific accountabilities and project managers.
- Partners should use MOUs, which are not legally binding, in order to clarify expectations, outline common objectives, delineate the relationships (to encourage coparticipation beyond providing funding), demonstrate targets, make commitments, and outline enforcement mechanisms. MOUs should be separate from funding agreements, but should always be a part of the framing process for a partnership to reduce the rate of partnership failure. Governance issues in framing a partnership often concern how to align interests and incentives; define accountabilities, expectations, outcomes, and success; and set up the subsequent metrics necessary to monitor and evaluate the project and partnership.
- MOUs should be constructed to be inclusive, particularly in partnerships that put together a range of actors of different sizes and scopes and that are bringing different strengths and types of assets to the table. MOUs should also include provisions for how to dissolve a partnership that is not working and how to allow for partners to leave a partnership if their circumstances change. They also have to include space for monitoring the partnership itself and for defining clear accountabilities and expectations for each party involved.
- In many cases in which partnerships involve large global actors and small local implementers, the large actors should sign the MOU while putting in place decisionmaking protocols. Structures must address specific fiduciary responsibilities of both public- and private-sector partners.

Operational Challenge: Monitoring and Evaluation

Monitoring and evaluation are key parts of forming development partnerships. To build a culture of using partnerships, there must be metrics that show a synergy between partners and that illustrate that the impact of the money is being maximized in such a way that could not have happened without the partnership. Metrics must be clear about what partners want to achieve, inputs, outputs, and impact. Monitoring and evaluation must be done not only to track resources and impact but also to track how the partnership itself functions. At USAID there was previously a call for data on GDAs that was separate from the general call for monitoring data; however, the system led to confusion and misinterpretation in country offices in State Department and USAID missions, causing the data-tracking system to be abandoned. There is a need, though, to incorporate a way to monitor partnerships that would allow for trend analysis and a data quality assessment to arrive at confidence levels on the quality of the data in order to allow for data interpretation and reporting.

As partnerships become a larger part of the development landscape, the need for their accountability grows. Because most partnerships are not bound by legally binding agreements (usually through MOUs or public press releases), there must be agreed upon approaches, met-

rics, or systems set up to track resources and impact.⁷ USAID understands why monitoring and evaluating partnerships is difficult: procurement and governance structures are complicated and heterogeneous, they are traditionally not data driven, systems set up to capture accountability in spending do not necessarily reflect the value added of a project, and there is a high transaction cost associated with gathering and evaluating data on impact.⁸ Monitoring and evaluation are further complicated by the need to jointly define problems and indicators of success, which can vary greatly for different partners.⁹

Partnerships should not simply monitor the outcomes of the partnership; they should also track the partnership itself. A key goal of monitoring partnerships is to evaluate whether the partnership itself made a difference or whether the same outcomes could have been achieved with each actor acting on its own. In small partnerships that involve few partners, measuring the added value of the partnership might be easier than in large partnerships that have several partners implementing several projects at once. The added value of the partnership is much more difficult to quantify in large partnerships, given different measures of success among partners, varying time frames and reporting mechanisms, and the high transaction cost of gathering data on partnerships and outcomes. In addition, a counterfactual to what may have taken place without the presence of the partnership is difficult to establish and therefore difficult to compare. However, attention must be given to the value of time spent forming and managing partnerships in comparison with the added value of having the partnership itself.

Recommendations

- Reinstate the tracking of alliances by various development agencies.
- Within agencies and at the outset of partnerships, metrics should be developed that can create a full picture of how and when partnerships are used, and they should include definitions of success, both in how well development goals were carried out and in how well partnerships themselves worked. There have been several approaches to monitoring and evaluation, including delivering metrics on the amount of money leveraged and the number of partnerships formed. Most studies have used a combination of qualitative and quantitative data to try to capture whether partnerships are being used and how well resources are being leveraged from the for-profit private sector and NGOs. Expected and acceptable returns to partnerships should be established; for example, it could be stated that, given the additional overhead of creating and managing the partnership, we expect a certain amount of money to be leveraged or a certain kind of development outcome.
- All partnerships should have, built into their budgets, a source of funding for monitoring partnership outcomes. At the outset of every partnership, desired outcomes should be agreed upon and metrics should be developed around those outcomes. Outcomes should be clear and specific, and partners should come to a consensus about what constitutes success in a project.

7. Agency for International Development, “Global Partnerships: Integrating GDAs in Monitoring and Evaluation,” accessed October 11, 2011, www.usaid.gov/our_work/global_partnerships/gda/mon_eval.html.

8. Jason Saul, Cheryl Davenport, and Avery Ouellette, *(Re)Valuing Public-Private Alliances: An Outcomes-Based Solution* (Washington, D.C.: USAID, Private Sector Alliances Division; Mission Measurement, LLC, 2010), www.usaid.gov/our_work/global_partnerships/gda/resources/RevaluingPublicPrivateAlliances.pdf.

9. Ibid.

Staff Exchanges: An Underutilized Way to Build Partnerships

The goals of staff exchange programs can vary from addressing technical capacity gaps to gaining understandings of varying objectives and end users in different organizations in order to further or generate joint projects. Development agencies do not use them enough. Although staff exchanges can be useful for helping agency staff and private-sector staff understand the culture and mentality of other actors in order to facilitate and build successful development projects together, they are difficult to set up, and they remain encumbered by bureaucratic obstacles. In recent years, for example, only a few successful staff exchanges at USAID have occurred with private companies, namely Intel Corporation and Mars, Incorporated.

The staff exchange with Intel took place in 2006. Intel staff came to USAID to work for a few months; this was followed by a few months of USAID staff going to California with work with Intel. Both visits included substantial time in the field in both Asia and Latin America. The dual goals of the staff exchange, from USAID's standpoint, were to design more individual projects within the MOU with Intel and to gain an understanding of the objectives and end users that Intel faced. Although the exchange did not directly result in new projects, it was helpful in creating within USAID an understanding of the mentality, culture, and pace of the company. These insights could be applied to future negotiations with Intel and helped to shape USAID's understanding of how Intel would view and measure success in a project.

The Intel staff exchange (as well as the Mars exchange) was viewed as a pilot program, but, although it is considered to have been successful, staff exchanges with other private companies have not emerged. There remain a variety of obstacles to implementing staff exchanges as a wider program within USAID, including many significant legal challenges to getting private-sector staff into U.S. government offices for exchanges. Similarly, companies (in particular those with sensitive intellectual property) have rules that make it difficult for a government staff member to sit in their offices.

The Franklin Fellows Program, which was started at the State Department by then undersecretary for management Henrietta Fore in 2006, is a promising example of how to bring outside skills and knowledge into U.S. government agencies and encourage knowledge sharing. The program has had success in bringing Franklin Fellows from the private sector into the State Department for assignments of less than one year. The Franklin Fellows model should be strengthened at the State Department and expanded to USAID and MCC.

Data should be gathered before, during, and after the partnership in order to get the clearest picture of possible impact. To evaluate actual impact, a randomized control trial should be run that includes an alternative of having a similar development project run without partners.

- There must be clear monitoring systems for different kinds of partnerships. In the case of partnerships that are based on leveraging funds, there should be data on how the impact of the project was expanded to more people or communities because of the partnership. For partnerships that utilize the competencies, knowledge, or connections of one or more of the partners, metrics should focus on how the partnership was more effective or efficient at accomplishing its goals than either partner could have been alone. In the case of partnerships built on supply chains or market-based solutions, metrics should center on private-sector outcomes. Partnership-building offices or measurement and evaluation offices should be able to provide guidance on what kinds of metrics are necessary and appropriate for tracking accountability and impact from both the U.S. agency side and the private-actor side.¹⁰
- The metrics must be established at the formation of the partnership and should be built on the outcomes of the partnership rather than the functioning of the partnership. “By focusing on outcomes, partners will be able to define and identify success and build partnerships that are more likely to generate significant value and more easily measure and demonstrate results.”¹¹ One solution to monitoring and evaluation issues lies in adopting “outcomes-based approaches to forming, operating and measuring the value of partnerships.”¹²

Operational Challenge: Scalability and Sustainability

The decentralized structure of the agencies, particularly USAID, has made it difficult to scale up partnerships that work. A disconnect is often cited between headquarters at USAID and its country offices. Private actors that want to expand a partnership have to go through the agency’s country office, which can be burdensome and costly in terms of time and resources, and leave it up to individual in-country leadership to support the partnership.

A major issue in building sustainable partnerships comes from staffing. A challenge arises in forming partnerships when the partnership is maintained by personal relationships between people at partnering institutions. A range of resources cite the need to institutionalize relationships so that partnerships do not fall apart with changes in staffing. This is true of career staff in country offices as well as political appointees in positions for limited amounts of time at any of the agencies we reviewed. Staff in decisionmaking roles also have to have specific competencies that enable them to work with private actors and understand the partnering company’s or organization’s strengths, culture, and motivations as well as U.S. government procurement, contracting, and appropriations mechanisms. It is recognized that a distinguishable skill set, including familiarity with the private-sector lexicon, is necessary to promulgate partnerships successfully. The private-sector officer cone is promising as it allows USAID to hire those who are able to work with firms, NGOs, and foundations.

10. The specific models and corresponding metrics were suggested by an interviewee.

11. Saul, Davenport, and Ouellette, *(Re)Valuing Public-Private Alliances*.

12. Ibid.

Recommendations

- Agencies and partnering actors can usefully start small, doing projects that have clear and measurable impact or outcomes over a short time frame. Over time, successful partnerships can be scaled up. This model is along the lines of USAID's relationship with The Coca-Cola Company in the water sector.
- Partnerships or partnership platforms can be founded on a very large scale and announced through a press release that calls for interested partners to join. This model is similar to the Global Alliance for Clean Cookstoves, which has grown quickly in the last year.
- Another model for scaling up partnerships is to find interested parties such as other U.S. government agencies, other bilateral donors, or major companies or NGOs to replicate or join an existing partnership in another region. A problem with this approach is that, in the face of limited funding opportunities, getting others to join or replicate an existing partnership is difficult given that agencies, MNCs, and global NGOs seek to either lead or control partnerships or to do something innovative and new in the development arena through a partnership. It is more difficult to get credit and funding for new partners to join existing partnerships.
- Use a market-based approach to scalability and sustainability, that is, use limited development dollars to help create a market or an industry. Examples could include using MCC grant money or USAID's Development Credit Authority to attract private investment to create a commercial microfinance institution.
- MCC has the ability to make grants to the private sector through its statute (although this aspect of the statute is underutilized) and should be using its grant-making power in ways to leverage private capital investment. Thus, MCC in theory is a natural instrument for achieving scale.
- Sharing proof of concept in a manner that allows others to replicate models is itself a model for scalability; similar concepts should be applied to partnership building. Success and impact in a partnership are not always about scaling up a project. The concept of scaling can mean demonstrating an effective model that others can use in different times and spaces. The Global Development Commons, which was started in 2007 by former USAID administrator Henrietta Fore as an open-source forum for knowledge sharing on development models was a useful way to create an enabling environment that allowed people to learn, copy, and adapt development strategies to make them more effective.

Creative Financing Mechanisms

While partnerships are an accepted and widespread development model, new forms of partnerships are emerging within bilateral and multilateral development (and development finance) agencies. They make use of catalytic financing, impact investing, and sector-wide initiatives. Although U.S. government agencies have several development finance mechanisms at their disposal, U.S. development agencies lack several tools or underutilize others; these include first-loss risk-sharing instruments with grant money, increased use of prize authority or advance market commitments (AMCs), or equity investment authority in special cases.

Catalytic financing and impact investing can help private actors overcome risk that they would usually consider too great to enter into a new market or provide incentives for the development of innovative technology. Several financial instruments are not uniformly appropriate but can be applied to a range of circumstances, including grants, credit enhancement facilities, and patient capital. Catalytic financing is being used by many agencies and organizations and can be instrumental in bringing about innovative partnerships. Tools like patient capital and credit enhancement facilities can allow private-sector companies to take on the higher levels of risk that they face when they enter developing markets.

Public-sector actors and philanthropies can apply a range of financing mechanisms in order to spur or incentivize R&D and knowledge sharing; these include AMCs and prize authority. Supporting joint R&D is an often-mentioned use for development partnerships, although carrying out R&D in a partnership can be difficult for several reasons, the most important being that procurement mechanisms are not set up to facilitate this in development contexts and that protecting the intellectual property of a partner can be difficult in a partnership. Thus, private actors are reluctant to enter into partnerships in which they feel their intellectual property is at risk.

Advance market commitments. AMCs, which are also called market pulls and guaranteed revenue streams, are effective demand-side guarantees for product development and have been used in various partnerships, including GAVI. They work particularly well to encourage innovation and production of technology solutions to development problems. They effectively provide a guarantee that, if a product is developed and produced by a company, the company will have a buyer for up to a certain dollar amount of a product. This helps to ensure that the company will not experience a loss in developing a product, which means that private actors particularly in the pharmaceutical industry can spend more on R&D for important but underfunded medical treatments and vaccinations. In buying and distributing the product, the intermediary (usually a development agency, NGO, or platform partnership) helps to create a demand for that product or type of products that a

company can then exploit. AMCs have longer time horizons than traditional official financing mechanisms and so offer more stability for communities and companies.¹ AMCs can also give private actors first-mover advantage in markets, particularly if they have a patent on the technology that was developed. AMCs have been used successfully in the GAVI Alliance, which committed \$1.5 billion to purchase vaccines from pharmaceutical private actors and distribute them in developing countries such as Honduras and Benin.²

Prize authority. Congress recently passed the America COMPETES Act, giving all federal agencies the authority to use prizes “to spur innovation, solve tough problems, and advance their core missions”³ although mechanisms for implementing the authority have yet to be put into place in many agencies. Granting prize authority to federal agencies was a recognition of how business has changed to take advantage of outside creativity, capacity, and expertise. In general, prizes have been used by large institutions that have funding and implementation resources to capture the creativity and inventiveness of individuals and academics who lack the financial resources to bring good inventions to market.⁴ Prize authority will enable agencies to tap intellectual resources in research institutions and private companies for innovative solutions and technologies from individuals and groups that have no part in project implementation. Prize authority is useful for new innovations in technology and service delivery by nontraditional actors and for incentivizing breakthroughs through R&D. Having prize authority allows agencies to reach innovators who have neither an interest in nor a capability for implementing development projects and help spur technological innovation that will reach and transform the lives of the poor.

First-loss tranches. First-loss tranches are a form of cash cushion that can be in the form of a grant, a loan, or a form of equity to attract other investors by agreeing to take a loss before other investors in the case of a loss. According to United Nations Capital Development Fund, first loss “can be provided in the form of an

1. Robert Hecht, Amrita Palriwala, and Aarthi Ra, *Innovative Financing for Global Health: A Moment for Expanded U.S. Engagement?* (Washington, D.C.: CSIS, March 2010), http://csis.org/files/publication/100316_Hecht_InnovativeFinancing_Web.pdf.
2. “Pneumococcal AMC,” GAVI Alliance, accessed October 11, 2011, www.gavialliance.org/funding/pneumococcal-amc/.
3. Tom Kalil and Robynn Sturm, “Congress Grants Broad Prize Authority to All Federal Agencies,” White House, Open Government Initiative, Washington D.C., December, 21, 2010, www.whitehouse.gov/blog/2010/12/21/congress-grants-broad-prize-authority-all-federal-agencies.
4. Eric S. Hintz, “Creative Financing,” *Wall Street Journal*, September 27, 2010, <http://online.wsj.com/article/SB10001424052748704505804575483423120157674.html>.

equity stake or an operational grant to the lender, fund, or platform.”⁵ First-loss tranches can be a powerful catalyst for bringing for-profit private-sector investors into a development project, but they are currently underused in U.S. development and development finance agencies. MCC and USAID grants could be used more often to provide first-loss facilities to encourage private actors to lend to credit-worthy borrowers who would otherwise not have access to financial products. MCC and USAID, through the Development Credit Authority, have sometimes provided grants or subordinated finance that can jump-start or catalyze development projects. There are several items of concern with first-loss tranches: One issue is the challenge of moral hazard, when a lender lends without the usual safeguards because there is a first-loss cushion. The other challenge is not providing too much subsidy. A government agency does not want to be perceived as overly subsidizing the financial success of one investor or a class of investors.

5. Marc Jacquand, “Finding a Role for Public Donors in the Privatized World of Microfinance,” *Microfinance Matters* (United Nations Capital Development Fund) 8 (2005), www.uncdf.org/english/microfinance/pubs/newsletter/pages/jan_2005/news_Jaquand.php.

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OTHER AGENCY-SPECIFIC CHALLENGES AND RECOMMENDATIONS

U.S. State Department

Global Partnership Initiative

The Global Partnership Initiative (GPI) at the State Department was started in 2009 as a global clearinghouse for partnerships in all agencies built off of a smaller partnership office function established late in 2006. GPI acts as a partnership convener, and its leaders currently enjoy direct access to the secretary of state. GPI lacks a programmatic budget of its own, and its goal of convening other agencies has been frustrated by interagency resistance. It provides training and technical assistance to actors in the State Department, nongovernmental organizations (NGOs), and the for-profit private sector, and it initiates partnerships between other donor agencies, the U.S. government, and the private sector.

Because of its lack of program funding, a basic challenge for GPI is that it has no funding for investing in partnerships on its own, and it must seek to generate and leverage funding from other sources within the U.S. government and outside of it. Although it has launched and collaborated with some successful partnerships, including the Global Alliance for Clean Cookstoves, it is able to help through bureaucratic bypasses and contortions.

Partnerships formed at GPI are also vulnerable to political changes. Some partnerships formed at GPI are responsive to a political calendar, which makes them at risk when political winds shift. Similarly, the staff at GPI is a mixture of political appointees and career staff. GPI's influence is highly dependent on the director's ability to access the secretary of state. Its lack of funding and its responsiveness to a political calendar make partnerships formed at GPI vulnerable to losing their ability to be effective.

President's Emergency Plan for AIDS Relief

Recognizing the fact that the majority of health care in sub-Saharan Africa is provided through the for-profit private sector, the President's Emergency Plan for AIDS Relief (PEPFAR) has devoted significant resources to partnering with private-sector actors. PEPFAR emphasizes that such partnerships improve the sustainability of its health interventions, build local capacity, expand the reach of its interventions by leveraging for-profit private-sector market access and global networks, and allow for cost savings by capitalizing on synergies. The founding legislation to create PEPFAR specifically calls for partnerships to be a part of how PEPFAR functions:

SEC. 4. PURPOSE. The purpose of this Act is to strengthen and enhance United States leadership and the effectiveness of the United States response to the HIV/AIDS, tuberculosis, and

malaria pandemics and other related and preventable infectious diseases as part of the overall United States health and development agenda by— (4) encouraging the expansion of private sector efforts and expanding public-private sector partnerships to combat HIV/AIDS, tuberculosis, and malaria.¹

PEPFAR's strong leadership support for partnerships as well as its relatively large amount of funding, small and focused staff, and clear mission have allowed it to develop high-quality partnerships that reach beyond philanthropic funding from the private sector to leveraging private resources, skills, technology, and knowledge. The overall private-sector resources leveraged by PEPFAR have been limited compared with the public dollars spent, but PEPFAR leadership has a philosophy that it should not focus on dollars leveraged or quantity of partnerships but on generating what it describes as quality partnerships.

PEPFAR, however, is hampered by the systems of its main partners including the U.S. Agency for International Development and the Centers for Disease Control and Prevention. PEPFAR's leadership at the State Department has sought to include civil-society and private-sector partners, not only on a funding basis but also as strategic partners that could leverage knowledge. PEPFAR's interagency effort is led and coordinated by the Office of the U.S. Global AIDS Coordinator (OGAC) at the State Department. As a policy and coordination office, OGAC officially receives, disburses, and reports on PEPFAR monies. OGAC also houses a Private Sector Engagement office, whose function is to liaise with implementing agencies, catalyze global partnerships, and provide training and instruments to country offices to enable high-quality partnerships that go beyond financial contributions and leverage the competencies of all actors.

Given the large amount of funding PEPFAR has from Congress, there are questions about how much private-sector capital it is leveraging in comparison with how much programmatic funding it already has. Given the funding and political will behind partnering with the private sector, staff within PEPFAR have had turned down potential public-private partnership proposals. This is primarily because, like other agencies, they have found that the transaction costs for leveraging small or moderate amounts of money were not significantly different from the transaction costs for leveraging large amounts of resources. Also, with good reason, they have also turned down partnerships that did not sufficiently demonstrate significant HIV-related programmatic impact that could be country owned and sustained.

PEPFAR benefits from having clear and straightforward targets and goals, which makes it attractive to private actors. This allows the Private Sector Engagement office to be precise about supporting partnerships that will accelerate its programmatic and strategic development goals. The selection criteria that PEPFAR uses to evaluate potential partnerships are based on what will have the greatest impact on HIV prevention, care, and treatment and on country-driven priorities. These criteria are not always understood by private actors, however, which can be frustrating for those that want to engage with the program.

1. Tom Lantos and Henry J. Hyde United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008, Pub. L. No. 110-293, July 30, 2008, www.govtrack.us/congress/bills/110/xpd?bill=h110-5501.

Millennium Challenge Corporation

The original authorizing language for the Millennium Challenge Corporation (MCC) includes:

... a nongovernmental organization or a private entity [as an eligible entity for federal assistance] in the form of grants, cooperative agreements, or contracts,²

Despite this, MCC has primarily worked through government-to-government funding, with little room for flexibility to work with the for-profit private sector or NGOs through alliances. Over time, the MCC has devised better ways to incorporate public-private alliances further into country strategies.

MCC has not brought nongovernmental actors into the planning and design stages in a meaningful way. At the beginning stages of a compact, the focus is on procurement regulations, leading people to forget that for-profit private-sector resources are available. Because of that, commercially viable opportunities are not laid out at an early enough stage to allow for the for-profit private sector to take advantage of them or to have a voice in forming policy that would help them to overcome barriers to entry into underserved markets.

Owing to the original design of MCC and pressures to implement compacts, MCC lost a number of opportunities during the last several years to use its money in more creative ways to share risk and leverage the resources of other partners. There are some recent examples where MCC is incorporating new approaches to loan guarantees or grant funding as first-loss or patient capital but this has not been business as usual at MCC. Because of the year-by-year, rigidly defined procurement for MCC compacts, projects that come up after the development of the compact are very difficult to fund. MCC should set aside resources (both human and financial) that would give the compact structure more flexibility to fund projects that come up or to allow funding transfers from project to project.

In newer compacts, there has been increased effort for structured private-sector engagement in the planning and design phases. There are staff members dedicated to promoting public-private alliances within the CEO's office as well as a private-sector development group in operations, but because of the way MCC programs resources these efforts have mainly been frustrated. Because of the way MCC conducts business—working with host governments in long-term contracts that take years to establish—transaction and opportunity costs are high for private actors wishing to partner with the agency. On an encouraging note, the current leadership of MCC recognizes the potential of partnerships with the private sector and is working to make changes to MCC's partnership capabilities. For example, in early 2011 the agency received several proposals through an annual partnerships solicitation as part of the Invitation to Innovate initiative in order to encourage private-sector engagement in priority sectors such as land tenure, property administration, and road corridor development.³

2. Millennium Challenge Act of 2003, Pub. L. 108-199, www.mcc.gov/documents/reports/mca_legislation.pdf.

3. Ivy Mungcal, "New MCC Initiative Aims to Engage Private Sector in Select Compact Countries," Devex, March 28, 2011, www.devex.com/en/blogs/aid-beyond-the-headlines/new-initiative-aims-to-engage-private-sector-enhance-investments-in-mcc-partner-countries.

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CONCLUSION

The United States is still the leading power in the world. However, the world has changed and is changing. Globalization has meant that the role of the state has diminished and that private actors, including the private sector, have increased their influence and their ability to affect change. If the United States wants to remain a major influence in the world and lead change, we are going to have to work more collaboratively with other actors—often nontraditional actors in the international development arena. Newly emergent donor nations—China, India, and Brazil to name a few—are offering the developing world alternatives to traditional Western development aid. Over time, the U.S. role as the leader in development and, more broadly, the U.S. role in the world are going to be put at risk if we cannot learn new approaches and leverage the assets of other development actors.

Our need to work with others does not mean sacrificing our principles or our interests. The United States should seek to exercise global leadership, and one way we do that is through our development cooperation. Global leadership in the development arena requires learning new skills and adjusting the way we achieve our development goals and, by extension, our foreign policy and national security goals. Our systems for delivering foreign assistance reflect a time when official development assistance was a much more powerful force in developing countries compared with foreign direct investment. We have to move from a system that reflects the biggest wallet and biggest rule book to a system that emphasizes the catalytic role of official development assistance. We must acknowledge that often the best ideas are not going to be developed as part of a top-down approach embodied in U.S. government-directed RFPs.

To succeed in this new development landscape, we are going to have to develop new instruments and approaches so as to employ the skills and assets of other actors. Public-private partnerships offer the United States a creative way to continue to leverage its great wealth and influence to impact development around the world. The U.S. government has experimented with some of these in a structured way through the Global Development Alliance at the U.S. Agency for International Development and the Global Partnership Initiative at the State Department. We now need to significantly improve these approaches and build far greater partnership capabilities so that we can seize the opportunity and maintain our leadership in development.

POTENTIAL ACTORS IN PUBLIC-PRIVATE PARTNERSHIPS

United States		Countries other than the United States	
Government	Nongovernment	Government	Nongovernment
U.S. Agency for International Development* Millennium Challenge Corporation* U.S. Department of State* Centers for Disease Control and Prevention U.S. Department of Defense Export-Import Bank of the United States Overseas Private Investment Corporation U.S. Department of Agriculture Office of the United States Trade Representative U.S. Department of Commerce U.S. Department of Energy U.S. Trade and Development Agency	Multinational corporations* Global nongovernmental organizations* Foundations* Diaspora groups Religious groups Universities and research institutions Impact investors Implementers	Bilateral donor agencies* Recipient government ministries* Middle-income countries* Multilateral agencies	Local companies* Local suppliers* Major foreign-based companies* Civil-society groups* Local nongovernmental organizations* Local implementers* Local religious groups Foreign universities and research institutions

* Actors that are examined in this report.



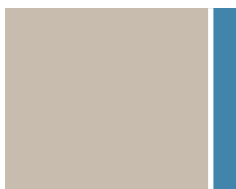
ABOUT THE AUTHORS

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ABOUT THE PROJECT

The Project on U.S. Leadership in Development is a partnership with Chevron Corporation focused on leveraging all U.S. assets—the private sector in particular—to promote economic development, improve livelihoods, and reduce poverty worldwide. The project seeks to renew the discourse in Washington and develop a fresh, actionable set of policy recommendations for 2012 and beyond. The project builds on the ongoing work of CSIS in global health, water, trade, food security, governance, and economic development in the areas of conflict and post conflict.



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