

The Shifting Landscape of Foreign Aid

Global Development Alliances and the Growing Role of the Private Sector in Development

Dan Runde was Director of the USAID Office of Global Development Alliances from 2005 through March 2007, and a Senior Advisor to the GDA Secretariat for four years before that. Developments invited him to share his thoughts on the initiative's present and future.

Development professionals have been noticing a marked influx of private sector actors in foreign aid programs in recent years. As someone who has worked hands-on to manage and promote public-private partnerships, I'm often asked to account for this change. What has driven the U.S. Government to develop more than 400 alliances worth \$5 billion, with some 1,500 partners, most of them from the private sector?

Well, we woke up five or six years ago and realized that our world had changed. In the 1970s, about 70 percent of money flowing from the United States to the developing world was in foreign aid, and only about 30 percent was foreign direct investment (FDI), remittances, and private philanthropy. That, in essence, has flipped.

PRIVATE SECTOR GIVING IS ON THE RISE

Today, roughly 15 percent of resources flowing from the United States to the developing world is foreign aid—official development assistance (ODA)—and 85 percent of the money flows are from private sources: FDI, remittances, various forms of private philanthropy, and contributions from faith-based groups. It's the money you give a church, the money you give to worthy causes such as Save the Children or the American Red Cross. It's also the new philanthropists and foundations like the \$29 billion Gates Foundation. It's corporate philanthropy, an increasingly internationalized form of giving.

It's not that the United States is stingy. On a dollar basis, we're actually the most generous government in the world. Not only do Americans give privately, but

also as a government, we have increased our foreign assistance from \$10 billion in 2000 to \$27.5 billion in 2005. That was the largest percentage increase of foreign aid since the Marshall Plan. A lot of that money was from the President's AIDS Initiative, and these funds are also from the Millennium Challenge Corporation. Certainly, some of it is Afghanistan and Iraq, but most of it is not. U.S. ODA overall has increased significantly.

U.S. Government development assistance is substantial, as it should be. What has changed is the landscape in which we, as a government, fulfill our development mission. Other actors—corporations, emigrant support for home countries, private philanthropy, individuals, and the faith community—have all ramped up their work overseas. And it's this shift in the landscape, players, and ways of doing business that has shaped the Global Development Alliance (GDA) initiative.

GOVERNMENT'S NEW ROLE

The U.S. Agency for International Development (USAID) has been providing economic development and humanitarian assistance worldwide for decades, and everywhere we work we have been successful in building partnerships: with host governments, implementers, and beneficiaries. However, what we are now doing in our GDA work brings a new dimension to the concept of partnership.

What distinguishes a GDA from another development project? Part of it is that we approach the project as equals, or funding partners, as opposed to donor and implementing partners. When we sit down with companies or philanthropies, or other potential donor partners, we come in a spirit of equality. We look at each partnership in terms of sharing planning of a project and jointly defining the challenge. It's also about sharing risks and rewards, and leveraging each other's money or asset values.

A new vocabulary has also grown up in our alliance world. USAID has come to understand how to build successful collaborations with "nontraditional

partners”—although that phrase can be a little misleading. Some of these partners, after all, are actors we have been working with for a very long time. We worked with the Rockefeller Foundation to help bring the Green Revolution to South Asia in the 1960s, for example. But as we design alliances with joint planning, shared risks, and common strategic objectives, we are also shifting into a “nontraditional” relationship with these partners.

GLOBAL NETWORK OF ALLIANCE BUILDERS

Our primary focus and our primary clients at the GDA are USAID’s 80 field missions. Our work is to help potential partners work with USAID in areas of the world where the United States has a strategic interest and to identify where there is an overlap of interest. Each country has an operating plan, and the harmonization of our foreign assistance process has been greatly enhanced by Ambassador Randall Tobias, USAID Administrator. This improved coordination across the U.S. Government allows us to crystallize and define our interests. And so, to the extent there is an overlap—both thematically as a result of our operating plan process and also geographically, specifically in a subregion or a country—then that is where we find opportunities to build alliances.

With the U.S. Government now teaming increasingly with corporate partners, our GDA staff and the missions that manage the alliances are working hard to make sure that U.S. ODA goals are still met while balancing the needs of private sector and international partners. We are very clear on this and it helps our conversations with prospective partners. When there are differences in goals, there may still be room for us to accommodate if there’s a compelling enough reason for us to meet each other halfway. Let’s take the example of a large oil company that came to us several years ago. This company wanted to work on small and medium-sized enterprise (SME) development. We said, “We’re very interested in working on agriculture and small farmers. Would there be a way you could meet your needs to work with SMEs but at the same time work on agriculture—because smallholder farmers are, in essence, small entrepreneurs?” We were able to come to an understanding around that issue. Some of it is about how we look at things. Sometimes it’s how we talk about things. It’s about listening but also being clear about what we can do and what we can’t.

NEW TRENDS, NEW PROCESSES

The GDA initiative has had such a high success rate because we have consistently embraced innovation, not only in technology but in terms of business pro-



Kristi Ragan, above with Dan Runde, is Chief of Party of DAI’s Core Services to the Office of GDA project.

cess. Just as we seek to redefine innovation in development, we also look for partners who are leading the way in new approaches to development and business. One example of interest to us is innovative banking solutions for the poor. This segment of the population at the “base of the pyramid” is actually becoming a new market that is attracting financial services companies. It’s a growing trend that many GDAs are driven not just by philanthropy but also by business interest.

Companies coming to us with development concepts often have a business interest connected to them, and we welcome that. We want to see people investing in developing countries. We’re not in the corporate welfare business, and we’re not the Department of Commerce, so our focus is first and foremost on development. Alliances must link to what we’re doing strategically in a country. Companies are coming to us with their vision of what they would like to achieve. A clear example is our alliance with Starbucks.

THE LATTE FACTOR

Starbucks is opening three stores a day all around the world. That means it has an ever-growing need for a predictable, growing supply of high-quality coffee, and a vital interest in improving the quality of coffee produced by agricultural cooperatives and smallholder farmers throughout the world, including Rwanda, which is where we began our relationship.

Six years ago, there was no high-quality coffee industry in Rwanda. And yet, a little less than a year ago, a Rwandan coffee called Blue Bourbon was sold in every Starbucks store in the United States through Starbucks’ Black Apron Exclusive promotion. Inside this \$13-per-half-pound coffee was a pamphlet on the assistance that USAID, Starbucks, and other buyers of premium coffee had provided to Rwanda’s smallholder farmers to raise the quality level.

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We talk a lot about sustainability in the development business. In my mind, part of sustainability is pulling smallholders into globalization in a positive way so that they're benefiting from it. If you can give a smallholder farmer in Rwanda a contract with Starbucks, that's a way for USAID to work itself out of a job, and that's what we want to be doing.

We know we have a good sense about project management. We also know the agricultural ministries. We know the health ministries. We know how to work with agricultural cooperatives. We also have money. Companies like Starbucks and others want to work with us because of these attributes. The success of a partnership will be defined by the lasting economic benefits that the partners enjoy.

We want to work with Starbucks and other buyers of high-quality coffee because of their supply chain buying power. What such buyers propose is that if the smallholder farmers make the necessary changes, they will be able to sell their product in a sustainable way. Starbucks has grant money—that's great. They also know quality. They know how to care for a coffee tree, how to package, and how to manage pest control. This knowledge is tacit information that buyers of quality coffee have mastered; while we at USAID may understand some of the agribusiness issues, we simply do not have the exact expertise that the coffee industry will have for its specific sector.

GDA's are especially suited to working where business interests and development work coincide, helping corporations get involved in a way that is sustainable. It's not just the corporate foundations that get involved; it's their buyers. If we are participating in their supply chain, we are participating in a significant part of their business. That is a very different kind of conversation than one based on philanthropy. Instead, it becomes a business issue, and results in marshalling resources, talent, and funding that might not otherwise be available.

RISK SHARING WITH EXTRACTIVE INDUSTRIES

Sometimes that conversation is about managing supply chains. Other times, it's about risk management. Many extractive industries are coming to us because they're working in very difficult environments. They're not in the development business, but often they are being forced to become donors in parts of the world where their work effectively obligates them to serve in a development role. They want USAID to help share risk and they want to benefit from USAID's expertise.

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We work with Chevron in Angola, where we've had a very successful relationship over the past five years. We think that the relationship has been a significant contributor to helping put Angola back on its feet. We've co-funded about \$15 million each, or a total of \$30 million. We helped start a local bank with Chevron. And we have helped jumpstart agriculture through a project that benefited more than 100,000 farm families. If you extrapolate that, then we're talking in the high hundreds of thousands, or between 5 and 10 percent of the entire population of Angola, who have benefited from this agriculture jumpstart after the civil war. So it's been a very successful relationship. We've co-issued two requests for proposals with Chevron, one of which dealt with capacity building for local government.

Another successful relationship has been with ExxonMobil, working around the world on malaria, ExxonMobil's signature issue. At the same time, the President has a \$1.2 billion initiative for combating malaria, a disease affecting millions of poor people. The George W. Bush administration has worked hard to eradicate malaria, and has reinstated the use of sprays in appropriate contexts to kill mosquitoes. ExxonMobil, like other extractive industry companies, shares our view that malaria is a business issue: if employees get sick, or family members of employees get sick, productivity suffers. It's also about community relations, so we are co-funding projects with ExxonMobil throughout Africa.

We also have worked with mining companies throughout the world. We have worked with such companies in Peru on sustainable forestry and species protection, as well as in Central Africa, managing issues ranging from local governance to environmental protection. The extractive industries bring a lot to the table in terms of expertise. They have resources; they also have the potential to localize their supply chain of various products and services. That has significant SME implications. It is a very powerful conversation if the largest donor in a country and the largest investor in a country go to the government and say, "We want to improve a certain area." Sustaining such engagement over time is the aim—and increasingly the achievement—of the GDA business model. ■