

President's Global Development Council

Global Development Council Report

Modernizing Development

May 15, 2015

Overview

There is no longer any debate about how dramatically the landscape for international development has changed, starting with its financing. Traditional bilateral and multilateral aid programs are now part of a far larger stream that includes domestic resources from developing countries, private capital flows, foreign direct investment, private philanthropy, and remittances. But if there has been broad recognition that global development has changed, there continues to be a vital debate about how best to situate U.S. efforts within this more modern milieu, and how to fully modernize U.S. development architecture and policies.

This second report of the Global Development Council is designed to follow-up on the recommendations spelled out in our first report issued in April 2014. It proposes a number of concrete, actionable measures – some new and some refined – to make U.S. development efforts more catalytic and innovative with a view to U.S. leadership galvanizing even more the creativity, resources and partnership of developing countries, civil society, the private sector and key multilateral institutions.

More modern and effective development programs and finance are essential to meet the vast array of challenges we face today – from Ebola in Africa and refugees in the Middle East to extreme poverty and malnutrition around the globe. Equally importantly, modernization places the United States in a better position to address some key global challenges that loom on the horizon: accelerating climate change; the rise of megacities; the need to feed, educate and find employment for growing populations; and developing new models of economic growth that are ultimately far more sustainable than today's.

The administrations of both President Obama and President Bush deserve credit for initiating and engaging in the much needed overhaul of U.S. assistance programs. Efforts such as the creation of the Millennium Challenge Corporation and the more recent establishment of the Global Development Lab reflect the understanding that our country needs to evolve its approach to development. The Power Africa initiative also offers a useful example of the catalytic power of U.S. assistance: the U.S. government has announced more than \$7 billion in financial support and loan guarantees for Power Africa and this has helped mobilize more than \$29 billion in additional commitments from the private sector, multilateral development banks, and bilateral partners such as Sweden. Though the proof of Power Africa's effectiveness remains in the results, it underscores the enormous potential of bringing more partners, counter-parties, and resources to the table in a collaborative fashion.

The council highlights five important elements of this new approach: Galvanizing the private sector for development; Promoting sustainable growth; Spurring innovation and focusing on results; Collaboratively mobilizing resources; and, Focusing on youth and women’s empowerment in major urban areas.

Galvanize the Private Sector for Development

Key recommendations: Establish a U.S. Development Bank • Permanently reauthorize OPIC while offering it additional FY2016 budget support • Allow OPIC to make equity investments and take first loss positions • Embrace social impact investing • Establish a ‘one stop shop’ for the private sector to interface with USG development finance actors

The United States has always been a leader in recognizing that the private sector is the best engine of growth and jobs, yet paradoxically, the United States remains constrained in its ability to leverage the contribution of the private sector through development finance. That is precisely why calls for practical steps to more effectively galvanize the private sector in support of development have strong bipartisan support across the development, business, and finance communities. This is a prime area where presidential leadership can, and should, make a lasting difference.

- **Establish the U.S. Development Finance Bank.** One of the primary recommendations of the council’s initial report was the establishment of a U.S. Development Finance Bank. We urge the administration and Congress to move toward establishing this institution, which would pull the following strands together into a far more coherent whole: the Overseas Private Investment Corporation (OPIC); the U.S Trade and Development Agency’s feasibility studies and technical assistance programs; USAID’s private-sector units that deal with business climate and other business promotion-related issues; USAID’s Development Credit Authority; USAID’s enterprise funds; and, relevant international technical assistance programs within the Small Business Administration and Treasury (Office of Technical Assistance).

A number of practical actions that the White House can take immediately, detailed below, should all be seen as logical steps on the path toward establishing the U.S. Development Finance Bank.

- **Strengthen OPIC.** The White House should push for OPIC’s permanent reauthorization, recognizing that this would provide private investors vital assurance that OPIC will not lose its ability to do business on short notice while allowing OPIC to manage its case load with even greater predictability, order and follow through. Further, we recommend that the White House, beginning with its FY2016 budget, request an increase in OPIC’s administrative budget to support the hiring of additional staff. This will enable OPIC to

support the investment activities of U.S. companies, more fully utilize its Congressionally-authorized investment ceiling amount, and enable more comprehensive, transparent and evidence-based reporting and evaluation of development results of the type recommended in our first report. As has been noted repeatedly, adding staff at OPIC is a budget friendly move, and would ultimately result in profit, not debt, flowing to the U.S. treasury. OPIC should also be enabled to take more flexible risk positions in its investments, such as equity or equity-like investments and first loss or subordinated positions in funds, and be encouraged to make more loans to female-owned Small and Medium Enterprises. Toward that end, it would be helpful to allocate \$100 million from OPIC's revolving fund for LP equity investments in high-priority sectors and regions.

- **Embrace Social Impact Investing across all the development agencies.** Social Impact Investing should be more actively utilized across the full range of the U.S. Government's development programs. In addition, as part of the concept of introducing equity investing into OPIC's portfolio, it would be appropriate to consider embracing the concept articulated by the G8 Social Investment Taskforce to make a percentage of such instruments available for use in accomplishing social as well as financial objectives. The world of social entrepreneurship is coming into its prime and the U.S. can play an important role in fostering innovative approaches such as Social Impact and Development Impact Bonds while ensuring that they are effectively managed and evaluated. This could include giving OPIC funding to manage a broader array of "impact investment" funds, with a mandate to foster new fund managers and new investment approaches. This aligns with the Council's recommendation to mainstream outcomes-based funding and impact investments mechanisms in US development agencies.
- **Establish a One Stop Shop.** As noted in our first report, we recommend that the government set up a "one-stop shop" that allows the private sector to more easily explore and interface with all the parts of the government engaged in development finance and to get answers back in real time. Currently, OPIC, USTDA, SBA, Commerce, and Ex-Im Bank hold joint outreach conferences for businesses considering trade or investment abroad. However, this is a partial solution. The goal should be to establish procedures to coordinate across agencies to better deliver: quick feedback and decisions; clear metrics on timelines for decisions and turnarounds; a streamlined review and approval processes; and a systematized method for project evaluation and monitoring that would allow that information to be shared with both private sector and government partners. As a starting point, the administration might consider an online clearinghouse of basic information from each relevant agency. Eventually this online clearinghouse of information from each relevant agency would be housed within the proposed U.S. Development Finance Bank.

Promote Sustainable Growth

Key recommendations: Appoint a Climate Smart Development and Resilience Advisor • Expand Feed the Future by three countries while targeting women for 50% participation • Reduce food waste and loss, including through efforts to upgrade key infrastructure • Utilize geospatial data to guide a major effort to restore degraded lands

The council strongly support the measures taken by President Obama on climate smart development and food security since our first report was issued, including the announcement that the U.S. is joining the Global Alliance for Climate-Smart Agriculture as a founding member and the common sense directive that federal agencies now factor climate resilience into the design, implementation, and evaluation of international development programs and investments. Demonstrating that economic growth, expanded agricultural production, and sustainability can go hand-in-hand must be a cornerstone of modernizing our approach to development. In order to promote sustainable agriculture and food security while building resilience to climate change, the council recommends a series of additional steps, all of which are highly compatible with efforts to better marry sustainability and growth in the post-2015 development agenda.

- **Appoint a Climate Smart Development and Resilience Advisor.** We urge the president appoint a Climate Smart Development and Resilience Advisor. In addition to the ongoing portfolio review, this adviser could also assist in improving, elevating, and integrating two signature administration initiatives: Feed the Future and the Climate Action Plan. The adviser would help ensure that programs are gender-equitable, better coordinated across federal agencies, inclusive of the private sector (including NGOs, for-profit companies, universities, philanthropies), and maintain a core focus on water and sanitation, forest conservation, oceans and fisheries. This adviser would ideally be situated either in the White House or the Office of Management and Budget. We also urge the Climate Action Plan be amended to include specific reference to women, girls, and gender.
- **Expand Feed the Future.** We also recommend that Feed the Future be expanded into at least three additional countries that are food insecure and experiencing high rates of deforestation. Leading candidates include Cameroon and several other Congo basin nations. With Central America experiencing serious drought, other candidates might include Central American nations – beyond Guatemala and Honduras which are already in the initiative – such as El Salvador. Additionally, geospatial information should be into both the Feed the Future country selection process and zone selection within current partner countries. Feed the Future should target 50% participation by women growers, harvesters and processors in its programs.

- **Partner to Reduce Food Waste and Loss.** We urge the administration to develop a strong and leverageable series of public-private partnerships focusing on reducing food waste and loss, with the Tropical Forest Alliance offering a useful model in that regard. Food waste and loss is a serious problem in both developed and developing nations alike, and dealing with this issue would be a win for climate, consumers, and agricultural producers while offering cost-effective ways to increase food production. Clearly mapping sources of food and agricultural loss and waste would be a useful first step, as is awareness raising. This could include a needs assessment in each Feed the Future country and work with host governments to find key targets of opportunity for productive investments that help reduce waste, such as through greater electrification using small-scale, renewable technologies to enable refrigeration. Improved education for producers and improved infrastructure to move goods to markets will be a key solution. Food loss and waste is an area where private sector leadership and knowledge of supply chains, will be critical, and this effort should be coupled with ongoing efforts by the Department of Agriculture to prevent domestic food waste and loss.
- **Restore Degraded Lands.** As noted in our initial report, we strongly support an initiative to restore degraded lands for agriculture by bolstering U.S. involvement in the Global Partnership on Forest and Landscape Restoration as a means to expand agricultural production without clearing forested areas or degrading other critical natural resource lands and waters. Africa has 1.7 billion acres, Asia nearly a billion, and Latin America about 1.4 billion ripe for restoration. A good precedent is the USAID/Millennium Challenge Corporation analysis in Indonesia of the potential to move palm oil production onto degraded lands rather than expanding onto productive forestlands. A logical first step would be to assess and map potential degraded lands ripe for restoration, including by use of geospatial information, in the current 19 Feed the Future countries. USAID's new Global Development Lab could usefully focus on refining best restoration practices, and packaging the information in readily accessible formats in partnership with farmers, communities, government officials, companies, and others. The land restoration effort should include a focus on securing women's land rights and girls' inheritance rights.

We also recommend the president issue an Executive Order directing U.S. government agencies to adopt deforestation-free procurement procedures by 2020. This would require a clear definition of 'deforestation-free' be established that was practicable across different commodities, and would have to be implemented in a World Trade Organization consistent and non-discriminatory manner.

Spur Innovation and Focus on Results

Key recommendations: Utilize payment for results by establishing a Development Impact Fund • More strongly link program evaluation to budget decisions • Establish a post or office similar to the OMB's Office of Information and Regulatory Affairs to strengthen the use of evidence in policy decisions • Better incorporate data collection into program design • Establish a 'Mobile Hub' to support a robust innovation ecosystem • Bolster the Global Development Lab

Continued progress in tackling global challenges will require applying innovations that better enable and empower local actors to meet their potential. Doubling the number of people in Africa who have access to power or feeding growing populations of people without further degrading lands will require further innovations – not only in developing new technologies and practices – but also in adapting and better applying existing ones. Such progress demands a paradigm shift in the use of development assistance. Given its track record, culture, institutions, global standing and convening power, the United States is in a unique position to drive innovation for development results, and making the development architecture a lasting force for innovation would be a significant legacy.

- **Utilize Payment for Results.** The overwhelming majority of development dollars remain focused on an outdated model of paying for inputs. Standard development contracts typically fund an agreed plan of activities and then disburse as these activities are completed, giving few incentives to try new ways to reach a stated program goal. This approach has too often locked the U.S. government and its developing country partners into activities even if they fail to deliver concrete results prioritized by both parties. In contrast, payments for results funding models represent a stark shift from traditional approaches. By illustration, a program that provides payment for the number of students who have finished school or acquired specific skills (an outcome) is dramatically different from a program that pays for number of teachers trained (an output). We urge USAID and other actors in the U.S. government development community embrace a bigger push to utilize outcome-based financing as a regular part of their operations. One option would be for President Obama, working closely with Congress, to establish a Development Impact Fund to support initiatives by agencies to pilot, and then scale, outcomes-based development approaches, like Cash on Delivery and Development Impact Bonds, across a range of different geographies and sectors. Another option for advancing payment for results would be to co-invest along with other donors and private foundations in a multi-donor development outcomes fund that would support pay for performance efforts and Development Impact Bonds. Pooling resources together in such a fashion could catalyze reforms not only for U.S. development practices, but also for the broader global development community.
- **Ensure Evidence Before Disbursement.** We reiterate our recommendation from our first report that agencies increasingly allocate resources to programs and practices backed by

strong evidence of effectiveness, while trimming activities that evidence shows are not effective. A post or office similar to the OMB's Office of Information and Regulatory Affairs could be created to ensure that development programs are backed by strong evidence and rigorous experimentation. In addition, USAID's increasingly robust work in evaluating its programs through its policy shop should be directly linked to its budget process with ineffective programs and projects dropped or altered as a result of evaluations and more effective programs given greater budgetary support.

- **Use Innovation, Technology and Data to Make Development More Effective.** The United States can and should use its technological leadership to more fully infuse development with more modern data collection, execution, and monitoring. Particularly in light of the call for a 'data revolution' as part of the post-2015 development agenda, U.S. assistance programs and those of major multilateral donors need to do a far better job in incorporating data collection into program design and creating a natural feedback loop to ensure effective programs that reach traditionally under-served and vulnerable populations. Too often, data collection and program design have been treated as separate endeavors rather than as an interlocking system. We also call for a 'Mobile Hub' to be established that can support a robust innovation ecosystem and coordinate the mobile-for-development field against upstream barriers to scale, including streamlining content and digital platforms that improve the lives of the poor, and facilitating and partnering with the private sector to provide internet access to the poorest regions of the world. Too many people still remain offline in an increasingly digital world, and those people are largely concentrated in 20 developing countries with women, the poor, and rural populations having particularly poor access. The U.S. government should work to expand Information and Communications Technology (ICT) Access, ICT Skills and Literacy, and ICT to Support Open Government and Transparency. It will be important to infuse a digital dimension into major White House Africa initiatives such as the Young African Leaders Initiative by creating digital commons for social entrepreneurs.
- **Bolster the Global Development Lab and the Global Innovation Fund.** Small amounts of money spent early on to foster better risk-taking, result-oriented innovation, and testing of ideas can yield large dividends in the form of better and cheaper ways to solve development challenges. We applaud the creation of the Global Development Lab and the Global Innovation Fund and urge high-level support for both ventures to lend further momentum. The White House should continue to allocate additional resources in the form of matching funds for the Global Innovation Fund to encourage private and philanthropic support. To be effective, the Global Development Lab must be widely open to a variety of public and private actors and should be governed as a scientific foundation, with key inputs from the research and practitioner community. A key responsibility for the Global Development Lab

should include determining programs and approaches that have sufficient evidence behind them to warrant scaling up by other parts of USAID as well as other actors.

Collaborative Resource Mobilization

Key recommendations: Increase investments in accountable domestic resource mobilization • Embrace an approach to combatting illicit flows that makes clear both developed and developing countries have responsibilities on this front • Lower remittance transaction costs • Establish a clear program agenda to help countries phase out fossil fuel subsidies • Better direct natural resource wealth for development

With financing for the post-2015 development agenda front and center with the Third International Conference on Financing for Development slated for July 2015 in Ethiopia, the need to collaboratively mobilize resources for development is pressing. The onus for development finance does not belong to North or the South; to the public sector or the private sector; to the individual, the state or international institutions. Instead, development finance represents an opportunity for all of these actors to collaboratively and responsibly work together to advance the kinds of lasting development that are in all of our best interests – from promoting economic growth and trade to protecting the global commons by slowing climate change. How these development resources, whether generated domestically or internationally, are spent – whether they are used to provide public services, support fair governing institutions and build resilient societies or are squandered, stolen or used to fuel conflict and corruption – will determine the prospects for billions of people around the globe.

Building up to the financing for development conference in Ethiopia, we urge the administration to pursue a number of steps all designed to drive improvements in the overall volume of and quality of development finance and help achieve the shared goal of ending extreme poverty by 2030:

- **Support Accountable Domestic Resource Mobilization.** The Council urges the U.S. government to develop a package of policy and assistance initiatives to support developing country governments and their citizens in improving the transparency, accountability and governance of resources for development, including domestic resources. Ensuring transparent and accountable management of all public resources will be essential to ensure that these assets and revenues are channeled toward inclusive economic growth and development. Assistance for improving developing country domestic resource mobilization should be increased as a proportion of the overall U.S. development portfolio. Limited bilateral funding is currently directed toward improving budget processes to ensure parliamentary and citizen oversight and participation, increasing tax collection, improving customs systems, and improving host country financial oversight institutions despite the potential transformative impact such efforts. These programs can be highly effective when

U.S. government assistance is matched by the commitment and buy-in of host country resources and political will, as USAID experience in places like El Salvador and Georgia has demonstrated. Absent those factors, these programs have historically had limited impact. The Council encourages the innovative deployment of aid to better align incentives to encourage accountability for delivery of services to poor citizens, especially traditionally marginalized populations such as youth, women and ethnic minorities -- and to encourage local buy-in and ownership of programs. Improving domestic resource mobilization not only marks the largest potential source for development finance, it also can often improve accountability between citizens and their governments as citizens demand for service delivery rises as their vested interest in governance increases.

- **Help Combat Illicit Financial Flows and International Tax Evasion.** In addition to supporting efforts within countries, the U.S. should support the adoption and enforcement of global norms that encourage donors to emphasize budget transparency and oversight, and enforce mechanisms to reduce illicit financial flows and tax evasion by international corporations. The United States should push to have all limited liability corporations and trusts report their beneficiaries and make those beneficiaries responsible for tax liabilities. Progress in this area, combined with the continued emphasis on budget and procurement transparency norms, would powerfully demonstrate that combatting illicit financial flows is best accomplished when global North and South act in concert.
- **Better Direct Natural Resource Wealth for Development.** Three and a half billion people live in “resource-rich countries” as defined by the Extractive Industry Transparency Initiative (EITI). In 2012 alone, natural resource exports from Africa were worth \$438 billion, dwarfing aid flows of \$51 billion that year. This will either be a great boon for the world’s poorest people or a tragically wasted opportunity. The Council recommends that the U.S. government establish an interagency task force to develop a set of policy and program recommendations, based on the precepts of the Natural Resource Charter, to support countries in improving the governance of their natural resource wealth along the entire value chain from extraction to expenditure while helping stem illicit flows deriving from resource wealth. These recommendations should build on the lessons learned from EITI and the standards developed through the IMF’s Guide on Resource Revenue Transparency and new cutting edge initiatives like the Global Initiative on Fiscal Transparency. Policy precepts should include commitments to public disclosure of payments related to individual oil, gas and mining projects by all companies; commitment to public disclosure of natural resource contracts; the establishment of open data formats for natural resource sector information; development of a collaborative framework to improve the effectiveness and governance of state-owned extractive companies; as well as technical and political support when governments decide to embrace fiscal reforms or implement public investment programs to improve the governance and utilization of revenues from natural resources.

- **Lower transaction costs for remittances.** With remittances to developing countries representing over \$300 billion annually, and often constituting one of the larger streams of finance to many developing countries, lowering the transaction costs for such remittances would represent a significant global good. We urge the administration lead the effort to help reducing average remittance costs globally below 5%.
- **Phase out Fossil Fuel Subsidies.** We support the administration’s commitment, including through the G-8 and G-20 to eliminate inefficient fossil fuel subsidies. For this effort to gain additional traction, it will be necessary for the administration and like-minded allies to put in place practical plans of support to assist countries as they take the necessary economic and political steps necessary to move away from such subsidies.

Focus on Urbanization: Women and Youth

Key recommendations: Push for a World Development Report focused on cities • Conduct an internal review of steps necessary to improve our ability to engage with mega-cities • Mount a collaborative global challenge to jump start employment and entrepreneurial opportunities for youth and women

- *Systematically address legal and social barriers that deter opportunity for women and youth as part of a coherent growth strategy*

Almost every global forecast underscores the importance of embracing new approaches to dealing with emerging megacities as crucial to the battle against poverty. In sub-Saharan Africa, eleven mega and middleweight cities are anticipated to account for 70% of total GDP growth by 2025. The projections are equally notable for other regions, including Asia. Megacities are magnets for growth and poles of attraction for migrating populations, particularly youth, but urban unemployment remains a serious concern, particularly among youth and women. Building upon the substantial work the administration is already doing on economic empowerment, we call on the president to mount a major push to catalyze economic opportunities in megacities for youth and women while vastly improving our mechanisms for dealing directly with municipalities around the globe. Several steps would be most useful in this regard:

Improve Our Ability to Deal Directly with Cities. Municipal governments are increasingly key interlocutors for development efforts, yet much of the development architecture remains at the national and multilateral levels. We urge the administration to use its influence within the World Bank to push for megacities to be the focus of the 2017 World Bank World Development Report, and we also urge the administration to help lead the way by conducting an internal review of ways in which development financing and programs should be altered to deal with the new landscape of megacities. Ideally, this effort would lead to a concrete series of partnerships and implementation commitments.

- **Create Jobs and Foster Entrepreneurship for Youth and Women.** An initiative on youth and women’s economic empowerment in cities has the potential to significantly reduce youth and women’s under- and unemployment in low-income neighborhoods of major cities around the world. The Council supports the launch of a Global Challenge to allocate funds across government agencies and sectors to use outcomes-based approaches like Development Impact Bonds, Cash on Delivery, or social impact investments to incent municipal innovation to spur job opportunities for women and youth. Efforts could prepare youth and women who have acquired limited foundational skills, and are otherwise under-prepared for formal sector employment, to enter the workforce through low- and semi-skilled jobs in the manufacturing and commercial sectors as well as to launch or grow micro, small and medium-sized enterprises. These programs would take an integrated approach to expand employment and enterprise opportunities. Improving training and access to financial and other resources would be essential, as would addressing the underlying structural and social barriers that often block advancement for women, youth, and traditionally marginalized groups. The focus would be on three mutually supportive and synergistic sets of competencies: building foundational skills such as literacy and numeracy; imparting transferable skills such as basic business skills, conflict resolution and negotiation; and advancing in life skills such as navigating complex institutions like personnel departments, banks and courts. Fostering better mentors and networks will also be crucial in giving youth and women the skills they need to succeed in medium and small enterprises. The idea would not be to dictate from Washington, DC the specifics of programs or policy changes but rather to reward those that actually work in creating sustainable employment. One element of the Challenge would be to offer partial risk guarantees in conjunction with other public and philanthropic resources to outside investors creating employment. Bringing together companies, bilateral and philanthropic donors, multilateral agencies and civil society organizations around a flagship effort to accelerate youth and women’s economic empowerment in major urban areas could have a genuinely catalytic effect and be an important first step toward genuinely sustainable cities.
- **Address Underlying Legal Barriers.** More effectively promoting women and entrepreneurship, in particular, will require consistent efforts to address the underlying legal barriers that often block advancement for women, youth, and traditionally marginalized groups. These legal and social barriers often include early and forced marriage, lack of access to reproductive health services, discrimination in land tenure rights, and lack of access to financial services and basic infrastructure. Many of these areas have already been areas of focus for the administration, but they can still be better approached as an interlocking series of barriers that must be addressed to promote growth, and we urge steps in that direction.