

President's Global Development Council

Global Development Council Report

Beyond Business as Usual
April 14, 2014

A Declaration

Modernizing America's approach to global development is an overdue and cost-effective way to advance our national interest in fostering a more stable, prosperous, equitable, and democratic world. The global aspiration to end extreme poverty within a generation can be significantly advanced by accelerating U.S. efforts to establish an effective, integrated, and up-to-date architecture for development assistance. Indeed, catalytic U.S. leadership can help millions of poor women, men, children, and traditionally marginalized communities achieve brighter futures.

The global development landscape has changed significantly over the last two decades. Private capital flows, as well transfers from other developing countries, now dwarf Official Development Assistance. More than 40 percent of the world's poorest people reside in fragile and conflict-affected states. More countries have achieved middle income status and become donors while still harboring pockets of poverty and deprivation. There is recognition that effective development ultimately hinges on the actions and accountability of developing countries themselves. In addition, growing challenges associated with rapid urbanization, a large youth population facing unemployment, and the impact of climate change on vulnerable populations all demand fresh thinking, as does the importance of women's empowerment across all of our development efforts. It is critical that U.S. development programs adapt to all of these changing contexts.

Given these factors, and building on the important foundations established by the Presidential Policy Directive on Global Development and the first Quadrennial Diplomacy and Development Review, our Council has targeted its initial work on four areas that cut across all development sectors. These proposals directly address the administration's stated goal of fostering inclusive growth and highlight where new approaches can have the greatest impact. Embracing the suggestions in these four areas – harnessing the private sector; innovation, transparency and evidence-based policy; climate-smart food security; and U.S. global leadership – will be crucial in helping achieve signature objectives like eliminating extreme poverty and the new Power Africa initiative. The Council will also explore other areas moving forward.

The Council fundamentally believes that U.S. development efforts will be well served by rigorously defining our comparative advantages and moving beyond traditional definitions of 'aid,' to better incorporate the interlocking elements of trade, diplomacy, tax and investment policy, information, innovation, risk mitigation, and national security. Despite the challenges of current budget realities, by working more flexibly and more transparently with a wider array of partners to reach traditionally under-served populations, the United States can (and should)

make greater contributions to global development that will benefit the American people and shape a more just and equitable world.

Harnessing the Private Sector

Development finance and private sector entrepreneurship are powerful but under-utilized assets for global development, and we will not achieve our ambitious goals for inclusive growth without better harnessing the private sector resources that are ultimately the drivers of development. Modern financing and risk mitigation instruments can be better used to address market failures, expand markets, stimulate domestic resource mobilization, spur innovation, promote women's economic empowerment, attract investment in vital infrastructure, and unleash inclusive growth. Enabling developing countries to participate more equally and profitably in global trade is a straightforward way to support job creation, private investment, and poverty reduction while better engaging traditionally marginalized groups.

- ***Creating a Development Finance Bank.*** The United States badly needs to modernize the array of instruments and operating authorities related to development finance and fundamentally reimagine its work to better catalyze private sector investment that can produce positive development outcomes. Ultimately, shaping bipartisan support for the creation of a U.S. Development Finance Bank that combines many existing authorities from across disparate agencies would be ideal, and this effort could be budget neutral. A U.S. Development Finance Bank would allow for a far more logical, coherent, and consistent discussion of how best to incorporate private sources of capital, infrastructure, and technology as a means to leverage government investments, foster public-private partnerships, and interact with local private sector actors. The Development Finance Bank would also be a 'one-stop storefront' that receives business inquiries through a single portal and responds to these opportunities quickly and in a coordinated fashion – something that the current system of finance spread across OPIC, EXIM, MCC, USAID and USTDA often fails to do.
- ***Taking Advantage of Emerging Finance Tools.*** Across the board, we need to take better advantage of important emerging tools such as social impact funds and 'blended capital' models – where small amounts of public finance can galvanize much larger private investments on appropriate terms. By attracting private capital to tackle clearly defined social problems and embedding social goals within the business model, impact investing can help support vital solutions in a range of areas, from affordable housing and green technology to agriculture and financial services. What makes these emerging financial tools so powerful is the establishment of clear impact objectives from the onset, continuous measurement of their achievement, and their ability to attract a wide spectrum of investors ranging from philanthropies willing to accept low returns to pension funds looking for near market returns. Impact investing is not about the government getting out of development; it is about U.S. development programs encouraging innovation, reducing costs by paying for effective results, and attracting new capital to the table. No single approach or instrument is ideal in all situations, and for development finance to be more effective, we need the flexibility to deploy a range of financing instruments customized to specific market needs and transactions.

Complementary Steps:

- As a first set of steps, the administration and Congress should take steps to give OPIC authority to reinvest a portion of its annual profits into additional staffing, and allow it to make equity investments, mix direct investments with loan guarantees, and deploy a broader set of modern risk mitigation instruments. OPIC currently has fewer staff members than its German, Dutch, or Japanese counterparts, and consequently is only able to utilize about 55 percent of its \$29 billion operating cap. OPIC generates considerable net revenues to the Treasury, and could generate a significantly higher volume of sound lending if it had sufficient staff to manage an expanded portfolio. These are modest changes – with the potential for outsized impact – that deserve bipartisan support, and would leverage significant development capital.
- OPIC should also place greater emphasis on lending for small- and medium-sized enterprises, particularly those owned by women.
- The United States should use its considerable influence within the World Bank and the International Monetary Fund to promote more innovative and effective financing models to galvanize private sector flows in support of gender-sensitive, inclusive, and sustainable development. This could include encouraging smaller investment sizes, greater risk tolerance, and greater ‘stage 2’ financing.
- Given the growing importance of public-private partnerships between governments, civil society, and the private sector, the U.S. Government should establish an Office of Global Development Partnerships and designate a partnership liaison officer in all major posts, with liaisons being given training and consistent legal guidance to help facilitate public-private partnerships.

Innovation, Transparency, and Evidence-Based Policy

Innovation and evidence-based policy-making can be transformative, and will be essential if we want to end extreme poverty through inclusive growth. From cellphone banking and the smallpox vaccine to budget transparency and more effective evaluation efforts, technology and policy innovations have improved the well-being of millions. The Global Development Council believes that maximizing these benefits demands a shift in mindset – a willingness to think big coupled with a clear-eyed recognition of the relative strengths and weaknesses of the U.S. Government when it comes to innovation. It is not enough to exhort agencies to innovate and take risks. We must realign incentives to foster experimentation that can produce ground-breaking innovation and the incremental improvements necessary to achieve lasting development impact. Precisely because it realigns incentives, the global movement toward greater accountability and transparency in development programs – coupled with the power of information and evidence-based interventions to unleash individual potential – harbor enormous promise for development.

- Focusing on Impact.*** The U.S. Government can achieve far greater impact with its limited development dollars by spending on what we know works and encouraging continued innovation. Three mechanisms stand out. First, the United States needs to be much bolder in prioritizing its investments on the basis of actual results and lasting impact, funding outcomes, not plans. For example, contracts could be written to pay for overall immunization rates attained rather than the number of health workers trained. Projects too rarely are measured by what should be their real benchmark: whether or not they enduringly improve people's lives. By experimenting with models that are designed to incentivize innovation and pay for actual outcomes, like cash-on-delivery and social/development impact bonds, such contracts would give local actors greater responsibility for managing – and delivering – results. Innovative tools such as direct cash transfers, should be rigorously piloted and evaluated against more traditional mechanisms, and expanded where appropriate. Second, the U.S. Government should make targeted catalytic investments to overcome market barriers that impede pro-poor innovations. For example, early-stage and mid-stage investments to develop, refine, and road-test potential innovations could have enormous pay-offs. Finally, the U.S. Government should be more demanding in ensuring that program funding is directed to those interventions supported by rigorous evidence and demonstrable impact. The Millennium Challenge Corporation has taken steps in this direction by requiring a cost-effectiveness analysis of projects.
- Making the Global Development Laboratory Bolder.*** The Council strongly supports the recent establishment of the Global Development Laboratory to serve as a hub for innovation. The Lab should model scientific institutes and focus its research on technology and policy innovation from inception to scaling them for impact. The Lab's grants should be awarded on the basis of outside peer review in an expert and evidence-based process and build on the experience of USAID's Development Innovation Ventures. We also urge that existing plans for the Lab be made significantly bolder and more ambitious in terms of the scope of resources, issues tackled, and collaboration with other research institutions and the private sector. In order for the Lab to be successful, it must tolerate a substantial level of risk, have the ability to not only incorporate but attract private funding, and budget its activities far differently than normal USAID programming. We encourage the President to challenge America's leading CEOs, investors, and philanthropists to mobilize substantial private capital for the operation and expansion of the Lab.

Complementary steps:

- It is increasingly possible to develop and deploy new tools that provide real-time feedback on the performance of development programs, and this feedback should offer an important complement to traditional monitoring and evaluation.
- The development agencies should simplify contracting procedures to encourage a larger number of actors – from the private sector, developing countries, NGOs, and civil society – to become implementers. USAID deserves credit for its initial steps in procurement reform.
- As one of the first important steps toward open data for development, we welcome the U.S. Government signing the International Aid Transparency Initiative (IATI) in 2011, and for releasing a schedule for compliance. We call upon the U.S. Government and its implementing

partners, such as NGOs and for-profit contractors, to work jointly to publish subcontracting data to allow a much richer and more accurate picture of our programs on the ground. We also support the continued work of the Open Government Partnership and efforts to encourage its expansion.

Climate-Smart Food Security

Responding to global climate change looms as one of the great development challenges of our time. Given that the world's poorest, particularly women, suffer disproportionately from climate change, any forward-looking development agenda must address the impacts of climate change. Expanding climate finance, promoting resilience, and expanding the use of clean energy are all imperative for eliminating extreme poverty and generating the inclusive growth that will benefit all people. Given the sweep of these issues, the Council has initially focused on the important area of promoting climate-smart food security, and will likely conduct additional research on other important items on the climate agenda moving forward. Feeding an ever-growing global population and expanding food production without further accelerating climate change and environmental degradation is crucial. With the global population estimated to reach 9 billion by 2050, the capacity of arable lands, oceans, soil, and forests are being deeply stressed. Data from the IPCC suggests that climate change on its current trajectory could trigger a 2 percent decrease in staple crop production in each coming decade. The United States needs to play a leadership role in fostering a national and global consensus on how best to promote climate-smart development, starting with food security to ensure that food production and sustainability go hand-in-hand.

- ***Integrating Sustainability and Growth.*** The administration needs to effectively integrate the President's Climate Action Plan with the Feed the Future initiative to make these programs mutually reinforcing and maximize the impact of resources. Demonstrating that agricultural-driven economic growth and sustainability can go hand-in-hand would be an enormous contribution to the global development effort. Toward that end, the United States should work with its bilateral and multilateral partners to spearhead initiatives that dramatically reduce post-harvest waste, increase agricultural productivity, strengthen land tenure and stewardship rights of women, significantly increase the efficiency of agricultural water use, and promote access to clean water and sanitation. Each of these steps would have strong economic benefits, feed more people, and help curb climate change. Better incorporating methods such as reduced fertilizer use, tree planting, and low-till technologies are win-wins for economic growth and addressing climate change, and metrics on climate change mitigation should be developed and applied to Feed the Future programs alongside current measures such as nutrition and productivity. Such mutually reinforcing efforts should also apply on the multilateral stage as well, where discussions on the Green Climate Fund could be informed by multilateral programs promoting increased agricultural productivity, such as the Global Agriculture and Food Security Program. Across the board, the administration needs to ensure that all of its major development initiatives are reinforcing, rather than competing with, the President's Climate Action Plan.

- **Reclaiming Degraded Lands.** The United States and its multilateral partners should launch an initiative to restore significant tracts of degraded land, including 600 million acres (an area roughly equivalent to twice the size of Ohio) that were once in agricultural production; to boost output; and to help combat climate change. As part of this effort, USAID should include geospatial information in Feed the Future zones and projects, with degraded zones given priority in project planning. The agency should also explore establishing pay for performance projects to provide incentives for agricultural expansion onto degraded lands rather than into forested areas.

Complementary steps:

- The U.S. Government should explore putting in place trade incentives (while ensuring that they are consistent with its WTO and other trade obligations), that reward partners willing to embrace more inclusive and sustainable supply chains and patterns of production. The administration should view the reauthorization of the Africa Growth and Opportunity Act and Power Africa legislation as opportunities to demonstrate how economic growth and sustainability can better work in concert.
- Existing cooperation and partnership with China on joint efforts to limit deforestation in supply chains should be expanded and accelerated, as should the partnership between the U.S. Government and the Consumer Goods Forum in promoting sustainable and inclusive supply chains.
- A greater focus on empowering women, who represent the majority of the world’s smallholder farmers and produce half of the world’s food, in agriculture and conservation is an essential ingredient to success in this arena. This should address securing the land tenure and stewardship rights of women, as well as the inheritance rights of daughters.

Global Leadership

Despite the changing landscape of development, the most powerful role for the United States remains as a global thought leader in development – one that is able to significantly influence the global debate and the actions of key multilateral institutions, fellow members of the G-20, major trade partners, and other bilateral players.

- **Hosting a Presidential Conference on Global Development.** In light of the fact that the public has yet to recognize how dramatically innovation, public-private partnerships, and the focus on effective governance and institutions are transforming the development landscape, the Council calls on the President to hold a White House conference with strong bipartisan participation on the future of U.S. global development policy within the next 18 months. Presidential engagement in such a conference could help establish a new, far more inclusive approach to development among U.S. Government agencies, NGOs, civil society, the private sector, multilateral bodies, and philanthropies. The conference could also highlight the historic successes achieved through development, including vital progress against HIV/AIDS and polio, and the record numbers of people around the globe lifted out of poverty during the last two decades through programs that are more efficient and better

evaluated than ever before. The conference would be particularly useful given the ongoing negotiations on the post-2015 development agenda.

Complementary steps:

- The Council is encouraged that the Administration is actively engaged in negotiations at the United Nations in setting the next round of global development targets through the post-2015 agenda. We urge the administration to urge completion of work on the existing MDGs to the fullest extent possible. We also support the vision for the post-2015 agenda embraced in the U.N. High Level Panel Report to: leave no one behind; place sustainable development at the core; promote jobs and inclusive growth; build effective accountable institutions; and forge a new global partnership. U.S. leadership and commitment will be essential to seeing post-2015 negotiations through to a successful conclusion before the end of 2015. An effective post-2015 agenda built around clear, compelling, and measurable goals and targets would significantly reinforce the other important elements that we have raised in this paper, particularly the link between economic growth and sustainability.

Next Steps

Building partnerships with reciprocal obligations among individuals, governments, and societies is the hallmark of effective development in today's world. Both donors and recipients, be they in the public or private sectors, need to be more transparent and accountable for their actions. In light of major global challenges, such partnerships can help realize historic opportunities. Now is the time to intensify and reimagine development.

The Council recognizes that it is essential for the Administration and Congress to work together to fully realize U.S. development leadership and the effectiveness of new and existing development efforts.

The Global Development Council will continue to provide independent insight and analysis to the President, and aims – through consultations with concerned individuals from government, the NGO community, universities, business, foundations, and think tanks – to bring new voices, new ideas, and new perspectives to the table. The Council will place particular emphasis on identifying successful approaches to inclusive and sustainable development and will be open about those approaches that don't work.