

## Why the private sector holds the key to better development aid



American private sector capital flows to the developing world are, at \$130bn annually, more than six times greater than official aid from the US. **Henrietta Fore**, the Administrator of USAID, says this underscores the importance of a wider trend towards public-private partnerships, and details some of the “lessons learned” that could interest European aid organisations

**D**uring my travels in Asia, Africa and Latin America, I have been struck by the tremendous power that can be unleashed through successful public-private partnerships. These networks have already become the catalyst for development in many areas including providing credit to rural entrepreneurs, promoting information technology and expanding health services.

By their very nature, partnerships – what we at USAID refer to as “global development alliances” – take many forms. There is no such thing as a “typical” partnership, but

some of the best ones include the community outreach assets of a non-governmental organisation (NGO), the management savvy of a private company and the strategic vision of an international donor agency. When working in ways that complement each other, the public and private sector can together become a tremendous force for elevating aid effectiveness to a new level.

Over the past seven years, the United States Agency for International Development (USAID) has launched hundreds of Global Development Alliances, learning important

lessons along the way. Many of these “lessons learned” can be useful to other donors as they seek to promote more effective development programmes and work together to achieve the Millennium Development Goals (MDGs).

The face of international development has changed dramatically in recent years. The stark divisions between “developed” and “undeveloped” or “first world” and “third world” have become blurred. In this new era of globalisation, official development assistance – while continuing to grow – has been overtaken by private investments of all types. Although traditional donor institutions remain important, we are now entering a period of great excitement and momentum with a profusion of new actors on the development stage who are bringing with them a wealth of new ideas and solutions.

Take the case of the United States. In recent years, the US has significantly increased its development assistance levels and now provides over \$20bn in official aid each year. Despite this expansion, private capital flows from the United States to the developing world far overshadow those of the public sector, weighing in at more than \$130bn.

This dramatic increase in capital originates from many sources, including corporations, private foundations, NGOs, universities and colleges and religious institutions. A significant portion also comes in the form of the remittances that private citizens send back to their home countries. Taken together, funds from these private sources now represent more than four-fifths of the

total flow of capital from the United States to the developing world.

This trend is not unique to the United States. Across the world, capital flows from private sources to the developing world dwarf those of the public sector, even as the number and diversity of non-traditional development actors continue to increase. While official development institutions retain an important role, their success – and the success of the entire global community in working toward meeting the MDGs – hinges to a significant degree on the extent to which technical know-how and capital flows from many sources can be used to advance a common set of development objectives.

In this evolving aid environment, traditional donors must move forward and advance to meet new opportunities. As the global economy matures, the web of economic networks will become even more complex. Donor coordination has always been a challenge. Now it is even more daunting, requiring continued dialogue and consultation with an increasing number of new development actors both inside and outside government.

One USAID response to this challenge has been to launch the Global Development Alliance (GDA) initiative. To borrow a phrase from former Secretary of State Colin Powell who established the GDA, this represents a “fundamental reorientation” of how the United States shapes its development programmes and relates to its partners.

By linking US foreign assistance to the resources, networks, expertise and

creativity of private sector organisations that are investing in developing countries, the GDA model enables partners to bring their strongest assets to bear in addressing jointly defined development challenges. Through this multi-stakeholder approach, it is possible to address issues and achieve solutions that no single actor could hope to tackle alone.

Since adopting this model and approach in 2001, USAID has had significant success in creating partnerships. To date, USAID has cultivated over 680 public-private partnerships with 1,700 different partners, leveraging over \$9bn in partner resources. Across every industry and every sector, USAID is working with corporations both global and local to increase the effectiveness of development assistance.

Of course, public-private partnerships are not completely new. Over the years, there have been a number of examples of joint projects where government agencies and individual companies team up to support educational initiatives, deliver healthcare or address environmental concerns. But what makes for real development progress is sustainability and scalability. Against this backdrop, what makes the Global Development Alliance partnership model particularly successful is our focus on these two specific concerns.

For example, USAID worked with Dutch Royal Ahold, the world's largest food sales company, to improve farming techniques and output among pineapple growers in Ghana. By using its purchasing power as an incentive, Royal Ahold, along with USAID and a group

of NGOs, was able to encourage small and medium-sized exporters of pineapples and other products to introduce new varieties and improve the quality and packaging needed to export to the European Union. As a result, more than 450 growers will earn more money, small and medium exporters will process more pineapples and Royal Ahold will benefit from a steady supply of premium quality fruit.

Similarly, USAID and Unilever are partnering with the Bill and Melinda Gates Foundation and UNICEF to promote hand washing with soap in Uganda, Kenya, Tanzania, Senegal and Benin. This in turn helps eliminate viruses that cause diarrhoea and respiratory infections, two of the biggest causes of death among children in Africa. For Unilever, the partnership draws on community mobilisation and promotes new approaches to marketing. From a broader development perspective, it provides a new tool for introducing a cost-effective approach to saving lives while also creating opportunities for small-goods sellers.

Last year USAID and the Alliance for a Green Revolution in Africa partnered in a five-year \$61m alliance to develop a commercial seed industry in West Africa. The partners, including the Rockefeller Foundation, the Bill and Melinda Gates Foundation, Pioneer Hi-bred, Monsanto, Kemseed, and the African Trade Association, are seeking to establish a network of over 800 agri-dealers. The alliance provides access to seeds and planting materials for more than 500,000 farmers in five countries. By stabilising income from agro-business dealers and farmers across West Africa, the alliance is

creating a more inviting environment for business investment and growth.

Shortages of information technology (IT) professionals are crippling the ability of developing countries to tap into the new global IT infrastructure. USAID is working with Cisco to train IT workers in these countries, and to date 10,000 students in 47 countries, including many in the Middle East and Africa, have graduated from the scheme. Cisco is bringing its technology, its certification systems and resources, and USAID its on the ground networks and its development expertise.

As these examples suggest, each partner needs to share a common interest and have a significant stake in the final outcome. While early alliances were more likely to emphasise philanthropy and corporate social responsibility, "lessons learned" suggest that the most sustainable and durable ones include a strong connection to the core business mission around which any successful private company is built.

Our experience with GDA has shaped the current business model into one that relies on market-based solutions to advance broader development objectives. When successful, the resulting alliances are both sustainable and have greater impact. By linking the assets of companies, foundations and NGOs with our own resources, we can together improve lives, provide employment and expand opportunity.

Seven years after this model was first adopted by USAID, partnerships are now evolving to the next stage. Under this

new model of cooperation called Global Frameworks, USAID is cooperating with key partners in every region of the world, including companies from not only the United States but also Europe and various parts of the developing world. The range of partners already includes such companies as Cisco Systems, Starbucks, Intel, Rotary International, Seaboard, Microsoft and Coca-Cola.

To better meet the needs of the developing world, donors have to look to where the largest resource flows originate – the private sector. By working together, we can accomplish more and have greater impact on the communities that so desperately need our help.

Official development agencies have much to learn from each other. In recent years, we have watched with interest as different donors have responded to the changing development environment and the explosion of new actors, ideas and resources. Collectively, we are striving to make our development assistance efforts as effective as possible. The 2005 Paris Declaration by over 100 governments on aid effectiveness, the recent Potomac Statement setting out a USAID-Nordic agreement to advance aid effectiveness and the upcoming Accra meeting in September on aid effectiveness represent part of the response to this continuum of change.

In addition, we at USAID recognise and appreciate Europe's increasingly active role on the international development scene. We have followed with interest the European Commission's efforts to ensure that various

bi-lateral European donors coordinate and work more closely together. We have also noted the ongoing trend toward multi-year funding as well as more decentralised approaches to programme management.

For our part, we believe that the GDA experience offers some useful models and “lessons learned” that will also be of interest to the wider European development community. As we work together to deliver more effective development, the private sector dimension of that development needs to receive greater attention.

Official development assistance remains a vital part of the ongoing effort to achieve

the Millennium Development Goals. But as the development landscape becomes ever-more complex, official agencies also have to adapt and change. The Global Development Alliance model for partnership is a proven success and an essential instrument in USAID’s development toolbox. Moving toward stronger and deeper alliances that involve the private sector should also represent an essential part of the broader donor community’s response. □

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