Public/Private Alliances Transform Aid

By Andrew S. Natsios/Illustration by Michelle Thompson

The dual goals of scalability and sustainability have eluded many development projects. In recent years, however, the United States Agency for International Development (USAID) has reached out to corporations, nonprofits, and even private citizens to build alliances that are making large-scale, long-term change. In this article, the former head of USAID describes the public-private partnership model that his agency forged, the successes that the model has won, and the struggles that it continues to face.

In 1994, 800,000 Rwandans were murdered in the last genocide of the 20th century. When Paul Kagame became president of Rwanda, the nation's economy was still in shambles, with few resources other than its people and its coffee crop. But Rwanda's coffee beans were of such poor quality and unappealing taste that they were sold at the lowest possible prices. Traders made most of the modest profits, leaving growers impoverished.

To make Rwanda's coffee crop more profitable, the United States Agency for International Development (USAID) and the Rwandan government organized an unusual alliance between coffee farmers and several international coffee companies, including Starbucks Corp. and Green Mountain Coffee Roasters Inc. The alliance trained the farmers to process specialty coffee beans that would fetch premium prices. USAID played a central role in linking the coffee farmers to U.S. coffee retailers, as well as in training farmers in how to grow and process the coffee to meet high specialty coffee standards. USAID also helped coffee farmers secure bank loans to buy or upgrade equipment.

By 2006, exports of Rwandan specialty coffee had grown to $8 million, and coffee farmers' per capita income had more than quadrupled, from $75 per year in 2001 to $400 per year in 2006. Starbucks and Green Mountain Coffee ranked Rwandan specialty coffee as the best of the best.

Like USAID in Rwanda, other donor government aid agencies are increasingly working with corporations and nongovernmental organizations (NGOs) to encourage economic development in poor countries. At least 10 bilateral aid agencies (that is, government agencies in a single country—such as USAID and the Department for

International Development, the British government's aid agency—that give aid to other countries) and multilateral aid agencies (that is, aid agencies—such as the World Bank and the United Nations Development Programme—that direct funds from several different governments and organizations to different countries) have established institutions to make these cross-sector links.

USAID embarked on its own large-scale experiment in public-private partnerships with corporations, foundations, NGOs, churches, universities, and ethnic diasporas in May 2001. These private entities contribute their own financial resources, expertise, logistical capacity, and technologies. They are not USAID contractors. Instead, they are partners in a new form of alliance that may help solve two classic problems of foreign aid: How do we design development projects that thrive even after government funding ends? And how can we expand small yet successful projects to scale so that they can help millions of people?

Eight years later, with 680 alliances valued at $9 billion in combined resources, USAID has learned many valuable lessons about how government aid agencies can get the most out of their alliances with private sector partners. We found that we must not only remove barriers to cross-sector cooperation—including low risk tolerance, excessive bureaucracy, and narrow notions of possible partners—but we must also create the right incentives for building alliances. As other government aid agencies increasingly rely on nontraditional partners to stimulate economies, alleviate poverty, preserve the environment, and protect human rights, they may learn much from USAID's experiences.

Governments Engage New Actors

Over the past 25 years, three seismic shifts have encouraged government aid agencies to join forces with corporations and NGOs. The first of these shifts is the massive increase in private U.S. dollars flowing to developing countries. In 1970, the U.S. government sent 70 percent of the U.S. money traveling to the developing world, while private sources sent the remaining 30 percent. By 2007, those trends had reversed, according to the Hudson Institute's 2007 Index of Global Philanthropy: The U.S. government provided only 9 percent ($21.8 billion) of the $235.2 billion flowing from the United States to developing countries; private sources sent the remaining 91 percent (that is, $213.4 billion). A closer inspection of the data shows that foundations, corporations, nonprofits, and other private philanthropic sources sent $37 billion to developing countries; ethnic diasporas sent $79 billion in remittances (mostly to Latin America); and corporations and individuals sent $97.4 billion in private capital flows, mostly to Asia.

This change in funding from public to private sources does not reflect a reduction in U.S. foreign aid, but instead an increase in private giving and transactions. These dramatic increases in private resource flows present aid agencies with new opportunities for increasing the scale and the sustainability of their projects. And public-private alliances are one mechanism for integrating the efforts of governments, corporations, NGOs, and even private citizens.

The second shift that is pushing governments to reach out to nontraditional partners is the globalization of the world economy. In the 1980s, barriers to trade and investment began to crumble, resulting in a massive infusion of private equity capital into developing countries, particularly Asia. International businesses arrived in countries that had previously experienced limited economic growth under planned socialist economies or mercantilist systems, whose business elites used state intervention to keep out competitors. As the corrupted, crony form of capitalism that dominated developing countries began to erode, market forces helped drive down poverty at an unprecedented rate. By the 1990s, these processes had dramatically expanded the size, influence, and number of international corporations operating in developing countries. They also made private capital, rather than foreign aid, the main antipoverty tool of the late 20th century. Given this economic globalization, government aid agencies that seek to alleviate poverty may more successfully accomplish their missions by integrating some of their programs with private sector efforts.

A final force that is moving government aid agencies to work with private partners is the realization that, in many cases, governments in the developing world are either too weak or too corrupt to spend aid well. During the Cold War, the U.S. government provided foreign aid to anti-Communist regimes, such as that of Mobutu Sese Seko of Zaire. But many of these regimes turned out to be corrupt, predatory, and tyrannical, and so the foreign aid produced neither public services nor reform. In many cases, the aid simply disappeared. Before 1982, USAID directed less than 15 percent of its annual spending through local and international NGOs and universities. In that year, though, the agency's leadership decided to stop making low-interest loans to the governments of sovereign states. And by the mid-1990s, the agency stopped relying on cash transfers to government treasuries as a principal tool to help developing countries.

These two changes freed USAID to direct more funding through grants and contracts to NGOs, universities, and businesses. This new model has increased the transparency, accountability, and performance of aid programs, audits show. With the new business system created in the 1990s, for instance, all U.S. foreign aid to Zaire went through NGOs such as CARE and Catholic Relief Services. These organizations in turn reduced child and maternal mortality rates, improved nutrition, and increased agricultural production. By 2007, USAID was directing more than 50 percent of its spending through NGOs, civil society organizations, and universities (the remainder went through international organizations and private contractors). And now USAID has 400 alliances with corporate partners alone.

To accommodate these shifts, USAID and other government aid agencies not only have had to form alliances with nontraditional partners, but also have had to create new organizational structures to manage these alliances. Before the 1990s, aid agencies typically created alliances with nontraditional partners as stand-alone projects to meet specific objectives. More recently, however, these aid agencies began creating standing organizational structures to undertake lengthier partnerships. In 2001, for example, USAID created the Global Development Alliance (GDA). Now a division of USAID's Office of Development Partners, the GDA still retains its primary

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responsibilities, which include serving as the lead partnership structure between the U.S. government's international development program and the private sector. The GDA's successes have led the U.S. government to establish similar alliance-building offices in the State Department and in several domestic departments. President Bush's signature foreign aid initiative, the Millennium Challenge Corporation, also works with private sector partners to promote economic growth and country ownership of programs.

Other bilateral and multilateral aid agencies have likewise created freestanding entities to manage their alliances with private partners. The Canadian International Development Agency hosts the oldest partnership program, the Canadian Partnership Branch (CPB). Founded in 1999, this program produced 1,380 projects valued at nearly $2.1 billion (in 2005 U.S. dollars) between 1999 and 2006. The German aid ministry, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), formed 822 alliances through its Public-Private Program between 1999 and 2005. And from 2000 to 2007 the World Bank invested $1.04 billion in private alliances.[1] Although these agencies invest an average of only 2 percent of their funds into alliances, that amount is growing, showing that these agencies are trying new approaches to poverty reduction, economic growth, protection of the environment, and the enforcement of human and labor rights standards.

Raise Risk Tolerance

Although aid agencies are reaching out to corporations and nonprofits at an unprecedented rate, the path to alliances has not always been smooth. An early impediment to alliance building at USAID, for example, was the U.S. government's increasingly risk-averse culture. Over the past two decades, a complex regulatory apparatus has evolved across all U.S. federal agencies and departments. With the goals of limiting abuse and increasing accountability, this apparatus rewards caution and due process, but unintentionally discourages innovation and risk taking.

When USAID introduced the idea for the GDA, the U.S. Office of Management and Budget (OMB) opposed anything more than a token appropriation for it. Both Republican and Democratic staffers on the congressional authorization and appropriations committees likewise resisted the idea, arguing that they could not control the spending of the private sector funding. And after the GDA's first audit, the USAID inspector general argued that GDA projects did not properly fit into the agency's country strategies.

To address the regulators' objections, USAID adopted several strategies. First, the agency enlisted the support of legislators who represented areas where GDA private sector partners were headquartered. For example, when USAID and Waterbury, Vt.-based Green Mountain Coffee were developing their specialty coffee partnership, a powerful Vermont senator was the ranking Democrat on the committee that controlled USAID's budget. The agency's initiative also won the endorsement of Secretary of State Colin Powell in the summer of 2001. Later, both Powell and I sent messages to embassies and USAID field missions worldwide to encourage cross-sector alliances. As the size and magnitude of the GDA grew, the White House staff took notice and added their support.

The Many Alliances of USAID

Here are a few examples of the aid agency's partnerships with businesses and NGOs:

Name	Start	Partners	Location	Mission	Results
Sustainable Tree Crops Program	2003	■ USAID ■ World Cocoa Foundation ■ Global cocoa industry ■ Bill & Melinda Gates Foundation	■ West Africa	■ Help farmers grow better cocoa ■ Link farmers with markets ■ Teach farmers business skills ■ Organize cooperatives ■ Protect surrounding environment	■ Taught 33,000 farmers in five countries ■ Benefitted 69,000 farmers through knowledge diffusion ■ Increased participants' yields ■ Decreased pesticide use ■ Raised payments to participants
Continuous Improvement in the Central American Workplace	2004	■ USAID ■ Gap ■ Wal-Mart ■ Limited Brands ■ Timberland ■ Coldwater Creek ■ Billabong ■ DAI	■ Guatemala ■ El Salvador ■ Honduras ■ Nicaragua ■ Dominican Republic	■ Improve compliance with international labor standards ■ Increase competitiveness of the Central American textile sector ■ Raise productivity by improving quality of life	■ Trained 809 workers in 47 factories on labor rights and responsibilities ■ Trained 614 labor ministry inspectors, some 50 percent of the region's inspectors ■ Implemented antidiscrimination manual ■ Reduced overtime in several locales
Water and Development Alliance	2005	■ USAID ■ Coca-Cola ■ Global Environment & Technology Foundation ■ Local partners	■ 21 countries in Africa, Asia, Latin America, and the Middle East	■ Increase access to clean water ■ Manage watersheds sustainably ■ Use water more efficiently ■ Improve sanitation and hygiene	■ Angola: Built 10 public water taps that serve 23,000 people ■ Ethiopia: Built 45 wells, public showers, washing basins, and latrines that serve 40,000 people ■ Egypt: Established technologies for wastewater treatment
MTV EXIT (End Trafficking and Exploitation)	2007	■ USAID ■ MTV Europe Foundation	■ Europe ■ Asia	■ Raise awareness and increase prevention of human trafficking	■ Filmed three documentaries on human trafficking ■ Launched animated film ■ Produced videos with bands such as Radiohead and the Killers ■ Partnered with more than 100 NGOs ■ Distributed hundreds of thousands of brochures in more than 25 languages ■ Reached out to millions of young people through concerts and music festivals

USAID also allayed regulators' concerns by choosing its corporate allies wisely. Using an established register created by the United Nations and the World Bank, USAID carefully vetted corporate partners according to their social responsibility. In this way, the agency not only reduced the risk of working with new and untested private sector partners (which could have skeletons in their corporate closets), but also gave staff members enough confidence to negotiate compacts with these companies. USAID also avoided the political and legal problems that would have arisen if a government agency had generated such a list.

As corporate alliances became more widespread, risk tolerance increased throughout the GDA. Perhaps the most celebrated early success story was initiated by Bob Hellyer, who was a USAID mission director for Angola at the time. In 2002, Hellyer announced to an initially skeptical audience of mission directors for Africa that he had signed an alliance with ChevronTexaco Corp. Through this alliance, both USAID and ChevronTexaco would commit $10 million each, for a total of $20 million to be distributed over five years. The alliance sought to support new enterprise development as Angola transitioned to a peacetime economy. More specifically, the alliance focused on expanding and strengthening the private agricultural sector in the country, delivering financial and business development services to small and medium enterprises across sectors, and providing technical assistance to the commercial banking sector in Angola to provide loans to small businesses and agriculture. Hellyer explained that because the funding was private money, the U.S. Congress could not earmark it, the OMB could not micromanage it, and the State Department budget control officers could not second-guess it. Following the meeting, the number of alliances in Africa began to rise.

Cut Red Tape

After overcoming the U.S. government's aversion to risk, USAID had to overcome the public sector's reputation within the business community for being a slow-moving, top-heavy giant. To this end, we designed the GDA to be nimble, decentralized, and responsive to its stakeholders. As a result of the GDA's swift and efficient decision-making processes, corporations such as ChevronTexaco readily join forces with the government agency.

Like many international corporations and public institutions, USAID operates with a chronic tension between the demands of headquarters and field offices. Historically, USAID has dealt with this issue by giving its 80 field offices a high level of authority. Likewise, when we created the GDA, we decided to empower the field missions to create, fund, and administer their own alliances with private sector actors. Meanwhile, the modest GDA central office, with its limited staff, budget, and authority, focused on four tasks: collecting and analyzing data, developing standards and procedures, funding regional and global alliances (which are beyond the scope of field mission funding), and providing technical support.

The GDA central office also created an extensive training program for career officers, which has been critical in getting the best results from this decentralized system. Through this program, officers learn how USAID's alliances work, what lessons and best practices the field and central offices have gleaned, how to overcome procurement challenges in the negotiation process, and how to manage risk through the vetting of new partners. This training gives field officers the skills to negotiate and manage alliances, which accelerates the new partnership model's spread within USAID. And because the personnel system of USAID requires foreign service officers to move from one field mission to another every three or four years, officers are able to take their experience and enthusiasm with them when they move to another office. This rule also has a downside, however: Some field offices retreat from their innovations when new, more risk-averse field directors take over.

Pitch a Big Tent

Another innovation that paid off for USAID was to engage a broad range of potential partners, including corporations, foundations, NGOs, ethnic diasporas, religious institutions, and universities. In this regard, USAID broke with the British and German partnership models by which governments worked almost exclusively with corporations.

USAID's big tent approach has had an unintended consequence: It has created a laboratory for experimenting with the different uses of private foreign aid and has become a rich source of information on which projects work, which do not, and under what circumstances.

One early successful alliance, for example, leveraged the tremendous informal aid that ethnic diasporas send back home in the form of remittances. Remittances are a substantial—but relatively unstudied—source of aid financing. Rather than funding just consumption, remittances also finance social services, public works projects, and microfinance programs. Tapping into the power of remittances, the Haiti USAID mission worked with UNIBANK, a relatively new Haitian bank, to channel remittances from the global Haitian diaspora to a local school construction project. Through its subsidiary UNITRANSFER, which specializes in remittances, UNIBANK put aside $1 from each remittance transaction to Haiti, which USAID then matched. The alliance then worked with the Pan American Development Foundation in 2003 and 2004 to build eight public schools in Haiti.

Other experiments have had more mixed results. The Sustainable Forest Products Global Alliance (SFPGA), for instance, is an alliance that uses market forces to protect forests around the world. Launched in July 2002, SFPGA brought together the World Wildlife Fund (WWF), the Certified Forest Products Council (CFPC, now called Metafore), Home Depot Inc., Wal-Mart Stores Inc., Anderson Corp., and Ikea, as well as several other international businesses that sell wood products. Through the SFPGA, these companies agree to use or sell forest products that the WWF and CFPC have certified as harvested in accordance with national environmental laws and regulations (which are otherwise often ignored). In return, these companies can market their products as environmentally responsible. WWF has contributed $34.2 million to the initiative, Metafore has donated $1.6 million, and USAID has contributed $10.7 million. Private companies have given an additional $27 million.

Seven years later, the SFPGA is enjoying remarkable scale: Some 16 percent of all wood products in the international marketplace fall under SFPGA's regulatory umbrella. But the alliance is not without its shortcomings: The NGOs did not want USAID to have a direct relationship with the corporations because the NGOs feared losing control of and influence over the project. Eventually USAID worked out a process directly with the corporations so that they could cooperate with the NGOs in a transparent way. The two NGOs, WWF and Metafore, had no relationship with each other because they were competitors. And because the corporations feared having a government agency interfere with corporate-NGO negotiations, USAID did not get to use its considerable environmental expertise to design the actual mechanics of implementation. In other words, inviting many different voices to the table sometimes sacrificed coherence for the sake of broad program reach.

Meanwhile, the SFPGA has not found a permanent source of funding because of skewed incentives within the alliance. And so although the SFPGA has successfully scaled, it has not yet attained financial sustainability.

Offer the Right Rewards

In addition to removing barriers to forming public-private partnerships, USAID offered incentives to seek out and cultivate these alliances. We rewrote the personnel standards (called the precepts) of the foreign service to include successful partnership building as one performance measure for advancement to the senior foreign service, from which many of the senior executives of the agency are drawn. The USAID foreign service is a highly competitive, merit-based personnel system (separate from that of the State Department) and so this change sent a powerful message that ambitious career officers should embrace the new alliance model, reach beyond traditional partners, and experiment with program designs.

USAID also created an annual prize for the best alliance of the year, which is a coveted award among senior managers and sends a message that our agency values innovation and creativity. In 2007, for instance, USAID granted the Coca-Cola Company the Alliance of the Year Award for its efforts to promote sustainable water management in developing countries through the Water and Development Alliance (WADA). Convening USAID missions, Coca-Cola bottling facilities and foundations, and the Global Environment & Technology Foundation, WADA had leveraged more than $14 million to protect watersheds and to increase poor people's access to clean water in Africa, Asia, Latin America, and the Middle East. By winning the award, Coca-Cola's development project received the imprimatur of a respected U.S. government agency, which gave the project favorable media coverage and a useful marketing message.

Unforeseen Solutions

Looking back on the past eight years, USAID's alliances not only have addressed local social and environmental problems, but also have produced unanticipated results. Despite internal conflicts, for example, the SFPGA has reached far wider and deeper into the world's forests and forest products industries than any one of its members could have done alone. More broadly, the SFPGA has demonstrated that with the right partners, private interests—such as the profit motives of lumber companies and retailers—can be made to work for the public interests—including the preservation of soil, habitat, and climate-regulating forests.

Another unintended yet desirable consequence of these alliances has been the education of aid agency officers and corporate managers in each other's disciplines. Having learned robust evaluation techniques from aid agencies, corporate executives now understand that their corporate philanthropy projects previously lacked rigorous performance measures. They also are more aware of foreign aid programs and have more positive opinions of government aid agencies' activities. And having worked alongside socially responsible corporations, aid officers now know the extensive technical expertise, innovative cultures, and useful technologies that corporations offer.

For its part, USAID has likewise learned that its partners have much more to offer than cash. On average, USAID funds about 25 percent of its alliance program costs, whereas it covers much higher ratios of its NGO program costs. Yet with private sector partners, USAID not only pays proportionally less, but also receives considerably more in noncash inputs such as technology transfers, specialized skills and competencies, market access, and even intangibles such as an understanding of market forces (and market failures). Some of these noncash inputs make strategic contributions of much greater importance than additional cash.

Simply Better

The new generation of development alliances is evolving away from short-term, stand-alone, multi-partner projects toward a more efficient and durable model that participants can continue to scale long after government agencies have exited. As USAID has learned, the more participants in an alliance, the higher the likelihood that they will have conflicting organizational missions and business processes (as was the case with SFPGA); that they will encounter delays in negotiating the alliance; and that they will form complex management systems for their programs. These conflicts, delays, and complexities in turn lead to higher costs—a luxury that government agencies like USAID cannot afford. To reduce transaction costs, this new generation of development alliances will rely less on single-project partnerships and will instead build stable public-private coalitions that operate multiple global projects.

USAID has now established alliances with some of the largest corporations in the world, many of which have enormous supply chains serving hundreds of millions of customers across the globe. As seen in the Rwandan coffee alliance, development projects that get plugged into these supply chains are more likely to lift poor but productive families out of poverty. Corporate philanthropy is admirable, nonprofit expertise is desirable, and government intervention is sometimes necessary, but none of these alone is sufficient to fuel large-scale development successes over the long term—particularly given the current global economic recession. The new generation of development alliances, however, will be both scalable and sustainable because it will integrate programs with business systems and corporate supply chains, identifying where development interests and corporate profitability meet. ■

Note

1 Andrea Binder, Markus Palenberg, and Jan Martin Witte, *Engaging Business in Development: Results of an International Benchmarking Study*, Berlin: Global Public Policy Institute, 2007.