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PUBLIC-PRIVATE PARTNERSHIPS IN FOREIGN AID: LEVERAGING U.S. ASSISTANCE FOR GREATER IMPACT AND SUSTAINABILITY

HEARING

BEFORE THE

SUBCOMMITTEE ON STATE DEPARTMENT AND USAID MANAGEMENT, INTERNATIONAL OPERATIONS, AND BILATERAL INTERNATIONAL DEVELOPMENT

OF THE

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PUBLIC-PRIVATE PARTNERSHIPS IN FOREIGN AID: LEVERAGING U.S. ASSISTANCE FOR GREATER IMPACT AND SUSTAINABILITY

TUESDAY, JULY 12, 2016

U.S. SENATE,
SUBCOMMITTEE ON STATE DEPARTMENT AND USAID MANAGEMENT, INTERNATIONAL OPERATIONS, AND BILATERAL INTERNATIONAL DEVELOPMENT,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:30 p.m., in Room SD–419, Dirksen Senate Office Building, Hon. David Perdue, chairman of the subcommittee, presiding.

Present: Senators Perdue, Isakson, Kaine, Coons, and Murphy.

OPENING STATEMENT OF HON. DAVID PERDUE, U.S. SENATOR FROM GEORGIA

Senator PERDUE. The committee will come to order. This hearing of the Subcommittee on State Department and USAID Management, International Operations, and Bilateral International Development is entitled "Public-Private Partnerships in Foreign Aid: Leveraging U.S. Assistance for Greater Impact and Sustainability."

Only in the Senate can we come up with the title for a meeting that long, but I think it is very important.

Senator Kaine and I and Senator Coons and Senator Isakson all have a great heart for this, and other members. We have talked about this. I am looking forward to the testimony and the interaction today.

I would like to begin by welcoming our witnesses, associate administrator Eric Postel of USAID.

Mr. Postel, I would like to publicly thank you. I know the State Department made an accommodation to have a partnership conversation today, and it is greatly appreciated. I think it is very appropriate. Thank you.

Daniel Runde of CSIS and Michael Goltzman of Coca-Cola, thank you guys for being here. I look forward to your testimony.

We are here today to discuss an issue that I find very important, how we can use the private sector and NGOs to serve as a force multiplier for limited taxpayer dollars in foreign assistance.

Foreign aid accounts for less than 1 percent of the Federal budget of the United States, and official development assistance world-

wide only makes up 20 percent of resource flows into developing countries.

With that said, as Ranking Member Kaine and I are both members of the Budget Committee and the Foreign Relations Committee, we have a unique perspective on how our global security crisis and our fiscal crisis are intertwined. Even though foreign aid is less than 1 percent of the Federal budget, I keep that in perspective in the fact that, in our current fiscal situation, every dollar we spend on the State Department and USAID, technically, in the United States is borrowed. So it behooves us to be very responsible about that in terms of how we invest it.

I think this leverage that we get, this natural leverage with the partnerships, is extremely important today, given the needs around the world.

That is not to say we should not continue to be more philanthropic and more and more philanthropic. We are the most philanthropic Nation in the world today. But in an environment of limited taxpayer dollars, we have to seek ways to find partners to help carry the load.

That is why our three witnesses are here today to discuss public-private partnerships in foreign assistance.

As a clerical note, I am simply going to refer to public-private partnerships as partnerships. We have a bet with my staff that I cannot say that three times in a row, so we are going to call it PPP, and that is not purchasing power parity. It is public-private partnerships today, to make it easier on all of us.

But thank you for being here. These partnerships are by no stretch a new idea in foreign assistance. We have seen USAID and other agencies work with nonprofit NGOs since the early 1970s. However, in the 21st century, a new world of public-private engagement in development has emerged, a new model marked by common objectives, joint planning, mutual resource contributions, and shared risks.

I am eager to hear from the USAID today as the primary U.S. agency promoting international development who has been a leader on partnerships for development since the establishment of the Office of Global Development Alliance in 2001.

I also look forward to hearing from Mr. Runde who not only served in that very office of GDA in the last administration but now studies development issues for the think tank perspective at CSIS.

I also look forward to hearing from Coca-Cola, a company with a distinguished history of partnership programs with USAID and other partners around the world, also who has launched dozens of programs and projects with USAID just since 2002.

Today, I hope we can get at some critical issues, some of which will be brought out by the questions and in your testimony, but I hope we will talk about what are the benefits to both the business community and to the government of public-private partnerships, and to the developing countries around the world? How can we further leverage these partnerships as we go forward? What can businesses do in foreign assistance and development that the U.S. Government cannot? How do such partnerships benefit the American economy and jobs, as well as receiving countries? And how can we

ensure appropriate congressional oversight of these partnership programs.

I think, more than anything else, if we look at the State Department mission, and so forth, we know that a developing world is a safer world. So I think this public-private partnership idea is something that we have to continue to get better at. You guys are the experts. We look forward to it.

With that, let me turn it over to the ranking member, Senator Tim Kaine.

STATEMENT OF HON. TIM KAINE,
U.S. SENATOR FROM VIRGINIA

Senator KAINE. Thank you, Mr. Chairman. Thanks to the witnesses and to all who are in attendance.

I will say to the witnesses one of the great things about coming during the summer, especially to testify, is you get a chance to inspire altruistic young people. The fellows and interns that we have who work in our offices, especially during the summer, love hearings like this. And the ones who come are the ones who are really interested in this topic. So in addition to educating us, we have some folks here in the audience who I know are really excited to hear what you have to say.

The world of global development has just changed so dramatically probably in the last half-century. Global development aid was largely a function of official governmental funding. So an overwhelming percentage of aid was direct government funding into aid accounts. And yet we have seen a tremendous growth both in the philanthropic NGO sector as a provider of global aid, but also the private sector through foreign direct investment.

Research materials that we had for this hearing have repeated a statistic I have seen a number of times, that foreign aid from donors, state donors such as the United States, makes up less than 20 percent of the resource flows into developing countries in 2014. The remaining 80 percent is comprised of foreign direct investment, private grants philanthropy, market term flows, and remittances sent by people who live abroad who are remitting dollars back home.

And that is great because it is a way to extend the investments that are made to help the developing world be more and more successful, but it also poses some challenges, challenges of coordination, making sure that we are not duplicating efforts in some areas, and then leaving big gaps in others.

In Virginia, I have been a big believer in the public-private partnership model, where there is kind of an intentionality and explicit focus in bringing public and private partners together to tackle projects with well-defined sort of expectations about what everybody brings to the table. We have done that in Virginia in transportation and other projects.

But, certainly, especially in this new world of global development aid, there is not any reason that we should not explore this model as well. In fact, it is being done in the global development world, and the question is how we can help it be done better without getting in the way or putting too much kind of bureaucratic structure

on top of it that would make it inflexible or unable to meet the needs that we see all over the world.

We have great witnesses today, and we have a number of members of this committee who have been very focused on this, because of their own experiences living in the developing world, and this matters deeply and personally to a number of members of the committee.

So I thank the chair for calling this hearing, and you for participating, and I look forward to asking good questions.

Senator PERDUE. Thank you, Senator Kaine.

Now I want to introduce our witnesses in the order in which they will speak. We would appreciate if you would keep your testimony to about 5 minutes.

Again, just in managing the time, we are going to probably have a vote called about 3:30. That is not a hard stop for us, but we will be needing to sort of move along.

First, we have associate administrator for the U.S. Agency for International Development, USAID, Eric Postel. Mr. Postel was confirmed by the Senate in March 2011 as the assistant administrator for the Bureau of Economic Growth, Education, and Environment. Since May 2015, he has also served concurrently as associate administrator.

Mr. Postel serves as agency's coordinator for the governmentwide Partnership for Growth program. Mr. Postel brings more than 25 years of private sector experience working in emerging markets to his position at USAID. He previously worked as a vice president at Citibank Tokyo.

Mr. Postel, we look forward to your comments. Thank you for being here.

STATEMENT OF ERIC G. POSTEL, ASSOCIATE ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, D.C.

Mr. POSTEL. Thank you, Chairman Perdue, Ranking Member Kaine, and members of the committee. Thank you very much for the opportunity to appear before you today. And I am grateful for the tremendous support that you have shown the United States Agency for International Development and for this opportunity to discuss our approach to these public-private partnerships.

As you alluded to, today, donors such as USAID are basically the minority partners in developing countries. In addition to the numbers you cited about our share, on top of those different categories such as foreign direct investment, just the domestic resources of companies in these countries, as well as the domestic revenues of the governments, completely swamps all of these things.

Within this shifting landscape, partnerships are central to our work and achieving our mission. In fact, it is embedded in our mission statement, the second word: We partner to end extreme poverty and promote resilient democratic societies while advancing our security and prosperity.

Our role will continue to evolve from that of being a funder alone. We are increasingly embracing our role as convener, facilitator, risk-mitigator, and empowering new and nontraditional partners to join the effort.

As you know so very well, there is a rich landscape of organizations of all shapes and sizes with which we partner to enhance our impact and ensure lasting results, whether faith-based groups, higher education institutions, NGOs, and the private sector. We have a long history across multiple administrations of engaging the private sector for development.

We have since the early years worked on private sector development in the countries themselves through programs designed to improve the business-enabling of environments. But in the late 1990s, we began to more proactively engage the private sector as true partners.

Today, we are focusing on those instances where business interests and development interests align. When they do not, we do not partner. But when they do, that is the opportunity.

Walmart executives know that educating women and girls is a smart investment in their future work force and their future customer base, just as we know that investing in girls' education has improved development results. When the interests do not align, though, then we should not pursue the partnerships.

As always, all of our partnerships adhere to the safeguards we have in place to protect against misuse of funds and other challenges.

One of the ways we partner with businesses is to achieve impact through the global development alliances, which Dan was involved in, in the early days. These alliances are co-designed, co-funded, and co-managed alongside partners such as Coca-Cola so both the risks and rewards of the work are shared.

Over the past 15 years, we have built more than 1,500 of these alliances with more than 3,500 organizations, leveraging more than $18 billion in funds outside of U.S. Government funding from private-sector sources and public sources.

Another tool is our Development Credit Authority, which allows USAID to use partial credit guarantees to share risks and unlock investment in sectors that are important for.

Through this effort, we used $185 million of taxpayer funds to mobilize more than $3.9 billion in credit working through 340 financial institutions in 74 countries.

Now, having expanded the use of those, we have begun to mobilize entire coalitions of private sector partners to make large-scale progress and address challenges at the systems level through initiatives that all four of you have supported so much, things like Power Africa and Feed the Future.

For example, more than $10 billion in commitments to invest in agriculture-related projects for more than 200 African and international businesses were secured in exchange for governments making needed reforms or improvements. Of that, $2.3 billion has already been invested.

As a sign of our commitment to this, we have also established an Office of Private Capital Microenterprise to help systematize this and move this more broadly.

So while we have made a great deal of progress in the partnerships writ large, we think there is more to do, there are more opportunities. We have to continue to highlight the success, but we have to be honest about the challenges we face.

I thank you very much for the opportunity to testify this afternoon, and I look forward to all of your questions.

[Mr. Postel's prepared statement follows:]

PREPARED STATEMENT ERIC G. POSTEL

Chairman Perdue, Ranking Member Kaine and members of the Subcommittee, thank you for the opportunity to appear before you today. I am grateful for the support you have shown the U.S. Agency for International Development (USAID) and for this opportunity to discuss our approach to public-private partnerships.

This is a momentous time for global development: Over the last thirty years, the number of people living in extreme poverty has been cut in half, and now—for the first time in history—ending extreme poverty is within reach. It is also a time of complex humanitarian crises and great upheaval, so the stakes have never been higher for us to obtain maximum development results for each precious taxpayer dollar.

Today, donors such as USAID are the minority partners in developing countries. While foreign assistance from donor nations to developing countries is about $160 billion per year, private philanthropy is about $70 billion, remittances are approximately $440 billion, foreign investment is almost $700 billion, and investment by domestic companies in their own economies exceeds $3.7 trillion. At the same time that development aid is just a small piece of the puzzle, developed and developing countries are partnering on bold, but achievable new agendas—from the 2030 Agenda for Sustainable Development and Sustainable Development Goals to the Addis Ababa Action Agenda—which cannot be achieved by one single donor or a combination of donors, organizations, or industry working alone.

With this shifting landscape, partnerships are central to USAID's work and achieving our mission, given the potential they offer in terms of bringing our work to scale and ensuring long-term sustainability. Partnership is even embodied in our mission statement: we partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity. There is a rich landscape of organizations of all shapes and sizes with which we partner across nearly every sector and industry to enhance our impact and ensure lasting results.

I recently spent a day in the state of Georgia that perfectly illustrates the wide array of partners with whom we are working. I went to the home of W. Allen Bell, the Executive Director of the Atlanta Resource Foundation, to meet with about twenty Atlanta business leaders who, inspired and strengthened by their faith, are spending their scarce free time on faith-based development projects in more than 20 countries, including with USAID in a couple of cases. This group alone has probably devoted $5-10 million to helping people lift themselves out of extreme poverty in some of the most challenging places in the world, from the Democratic Republic of Congo to Central America.

And this is just one local example. Major faith-based organizations like Catholic Relief Services (CRS) and World Vision USA are some of our top partners. For example, our partnership with CRS is on the scale of hundreds of millions of dollars per year. Last year, CRS, World Vision USA, and Islamic Relief joined with USAID and others to launch a partnership that supports peacemaking efforts in Central African Republic. Through this partnership, USAID's $3.5 million leveraged $4.2 million of private funding.

Later in the day, I met with five different Georgian universities. They, like so many others around America, are engaged in a wide variety of development projects from helping the President's Feed the Future initiative to address malnutrition and improve farming around the world to partnering with USAID to fight global health challenges. In the case of our higher education partnerships, we are leveraging their research capabilities as well as training the next generation of development leaders. In this new era, achieving development goals requires targeted, evidence-based programming, but also galvanizing others to action.

I also visited CARE, an NGO that has been fighting global poverty since 1945. Each year, this group harnesses the incredible generosity of countless Americans to put more than $200 million to work alongside the U.S. Government to respond to disasters, educate girls, improve health outcomes and reduce hunger. There are many more examples like this. In every region of the world, NGOs are working side by side with USAID to meet urgent needs after a disaster strikes, improve equitable access to vital natural resources like water and land, and to strengthen the rule of law and democratic governance.

In Atlanta I also spoke to dozens of financial sector professionals from across the United States on the investment opportunities in Africa. Most business leaders rec-

ognize that developing countries are home to some of the fastest growing consumer markets on the planet. As our longstanding partner Coca-Cola can likely attest, businesses are well-positioned to catalyze growth and positive change. Companies create jobs, transfer knowledge, and create an enabling environment for entrepreneurs essential for growth. In developing countries, businesses generate 80 percent of capital flows and 90 percent of jobs, and are the primary drivers of GDP growth. They are also critical in determining how resilient, inclusive and environmentally sustainable that growth will be.

And increasingly, their business objectives overlap with our development objectives. Wal-Mart executives know that educating women and girls is a smart investment in their future work force and future customer base, just as we know that countries that invest in girls' education have reduced maternal and infant deaths, lower rates of HIV/AIDS, and better child nutrition—an important foundation for economic growth.

So how can our work with businesses accelerate progress toward inclusive and sustainable development? USAID has a long history, across multiple administrations, of engaging the private sector for development, one that continues to grow and evolve. We have, since the early years of USAID programming, supported private sector development and competitiveness, through programs designed to strengthen local business enabling environments and create the conditions for economic growth.

In the late 1990s, we began to more proactively engage the private sector as true partners. This was an important shift. Specifically, we began to move beyond traditional relationship structures characterized by donor-recipient or client-vendor engagements in which organizations implemented projects that were conceived, designed and funded by USAID. Today, as we partner more, we are focusing on those instances where business interests and development objectives align. When they don't align, we should not and do not pursue partnerships. And, as always, all of our partnerships adhere to all of the safeguards we have in place to protect against misuse of funds and other challenges.

I want to highlight a few of the different ways we partner with businesses to achieve impact. One of these ways is through Global Development Alliances (GDA), our flagship approach to public-private partnerships. GDAs leverage the assets and experiences of the private sector—their capital, investments, creativity and access to markets—to solve complex problems. I am thrilled to be here with Dan Runde, one of the early members of the GDA office during the Bush Administration, who played a huge role in growing, mainstreaming, and institutionalizing the office. GDA has served as a strong foundation as our engagement with the private sector has continued to evolve. Over time USAID has learned to partner with companies in a variety of ways, and companies have also evolved, learning that partnering with USAID can help achieve their business objectives, while we achieve our development goals.

Through the GDA model, we partner in industries and geographic areas with businesses whose interests align with our development objectives. These partnerships are co-designed, co-funded and co-managed alongside partners, so that both risks and rewards of the work are shared. Over the past fifteen years, we have built more than 1,500 of these alliances with more than 3,500 partner organizations, leveraging more than $18 billion in funds from public sources, such as host country governments, and private sector sources.

For example, USAID partners with DuPont to help end world hunger and ensure food security by the end of 2020. DuPont Pioneer collaborated with USAID and the Government of Ethiopia to advance our shared agricultural development and food security goals. This collaboration, which is termed the Advanced Maize Seed Adoption Program, provides sample seed to demonstration plots and field training sessions as well as builds a network of farmer dealers and the current cooperatives to advance the utilization and acceptance of high-quality inputs and production techniques. DuPont/Pioneer completed construction of a state-of-the-art seed facility and more than 30,000 farmers, three times the target established for year two, have planted DuPont's high yielding seeds. In part due to use of these improved seeds, farmers achieved a 300% yield increase over the national average (7 metric tons per hectare, as opposed to 2 metric tons per hectare) in the last two years.

In another example of partnership, the U.S. Presidents Emergency Plan for AIDS Relief has a long-standing collaboration with USAID to combat HIV/AIDS and achieve epidemic control through public-private partnerships that support innovation and resources from the private sector. These include the Accelerating Children's HIV/AIDS Treatment (ACT) initiative, a two-year $200 million public-private partnership with the Children's Investment Fund Foundation to double the number of children receiving life-saving antiretroviral treatment. PEPFAR and USAID also

partner on the Determined, Resilient, Empowered, AIDS-free, Mentored, and Safe women (DREAMS) initiative, an ambitious $385 million public-private partnership with the Bill and Melinda Gates Foundation, Girl Effect, Johnson & Johnson, Gilead Sciences, and ViiV Healthcare to reduce new HIV infections among adolescent girls and young women. These efforts are aligned with the Sustainable Development Goals and associated targets and indicators that United Nations member states are using to frame their agendas. Member state action and policies will impact health, education, gender equality, and inequality, and will promote partnerships towards peaceful and inclusive societies.

The second major tool created to work with the private sector on specific projects is our Development Credit Authority (DCA). Through DCA we use partial credit guarantees to share risks and unlock investment into sectors that are important for development. Through this effort, we have leveraged $185 million of taxpayer funds to mobilize more than $3.9 billion in credit through 474 loan guarantees with more than 340 financial institutions across 74 countries. This translates to a leverage ratio of 1:21. In 2015 alone, DCA mobilized $695 million toward USAID development objectives.

For example, in 2015 we partnered with two Bangladeshi banks and the Alliance for Bangladesh Worker Safety to enhance worker safety in garment factories across the country. Through DCA, we were able to mobilize $18 million in lending to help factories make important safety changes. And, as the Alliance consists of U.S. brands, a significant majority of these factories benefiting from these improvements are exporting to U.S. buyers through U.S. apparel companies.

And now, having really expanded the use of GDAs and the DCA to support individual efforts, we have begun to mobilize coalitions of private sector partners to work toward large-scale progress and address challenges at the systems level. We are putting these new approaches to work through initiatives such as Power Africa and Feed the Future.

The President's global hunger and food security initiative, Feed the Future has established relationships with local and regional companies in its 19 focus countries, as well as with U.S. and multinational companies such as Walmart, DuPont and Syngenta, and with Partners in Food Solutions, a nonprofit consortium of leading global food companies like General Mills, Cargill, DSM, Buhler, and Hershey. These relationships have expanded the initiative's reach into food-insecure regions and leveraged millions of dollars in private capital for inclusive agricultural development and nutrition efforts.

Feed the Future also serves as the principal vehicle through which the United States contributes to the New Alliance for Food Security and Nutrition. The New Alliance brings together businesses, donors, civil society, and host country governments to unlock investment in African agriculture and reduce hunger and poverty by linking private investment commitments to policy reforms from host country governments. The New Alliance has secured more than $10 billion in commitments from more than 200 African and international businesses to invest in Agriculture-related projects provide governments made needed reforms or improvements. So far, $2.3 billion has already been invested.

Similarly, our efforts to double access to electricity in sub-Saharan Africa through Power Africa, focused on advancing both on- and off-grid electricity transactions, are rooted in public-private partnerships. Through Power Africa the U.S. Government and our bilateral and multilateral development partners are working with African governments to help break down the barriers to private sector investment in Africa's energy sector. Through this initiative, the U.S. government has committed $7 billion, and to date has leveraged more than $31 billion in commitments from over 100 private sector partners to invest in power generation and distribution across sub-Saharan Africa.

For example, Power Africa worked with the Kenyan government to determine the national electric grid's absorption capacity for wind power. This information helped enable one of the first deals signed, with Power Africa support, with OPIC providing a guarantee of $250 million for a 310 MW wind power generation project near Lake Turkana, Kenya. This single project will increase Kenya's available electricity by 15%.

No matter the model we use, our partnerships with the private sector are critical to achieving transformative development success. As a sign of our commitment to building on this work and integrating these capacities across the Agency, we established an Office of Private Capital and Microenterprise to focus on mobilizing even more private capital to support USAID's development objectives. This office works with a powerful network of traditional and nontraditional investors to catalyze finance for development and increase the scale, impact, and sustainability of our programs.

As all of the different efforts I have described today make clear, USAID has been on a multi-year, multi-Administration voyage of discovery and leadership to increase the impact of precious taxpayer funds. One of the advantages of engaging in partnerships is that they offer incredible potential for scale and long-term sustainability beyond USAID assistance. And while we have made a great deal of progress in partnerships writ large, there is even more we hope to do to tap the full potential of this field. We must continue to highlight the successes but also be honest about the challenges we face.

Those of us in the donor community must continue to use our aid in innovative ways, to catalyze partnerships to achieve shared goals. We are also working to ensure that we are a better partner. We have increased our focus on relationship management, ensuring that we establish trust and communications with partners, allowing us to engage more strategically. And as we engage, we must continue to ask ourselves: How can we be catalytic and unleash the power of partners and/or markets to advance social and economic development? And, what can we do given our unique positioning to bring diverse stakeholders together to solve complex problems?

We know that achieving our ambitious development goals will require unprecedented collaboration across sectors. Our role as a donor will continue to evolve beyond that of a funder alone; we are increasingly embracing our role as a convener, facilitator and risk mitigator, empowering new and nontraditional partners to join the effort to end extreme poverty and promote resilient, democratic societies. USAID and its partners have been fortunate to receive strong support and guidance from this Committee over several decades, which have enabled us to pursue this important work.

Thank you for the opportunity to testify this afternoon. I look forward to your questions.

Senator PERDUE. Thank you, Mr. Postel.

Now we will turn to Daniel Runde. Mr. Runde serves as director of the Project on Prosperity and Development and holds the William A. Schreyer Chair in Global Analysis at the Center for Strategic and International Studies, or CSIS. Previously, he led the foundation's unit for the Department of Partnerships and Advisory Service Operations at the International Financial Corporation. His work there facilitated and supported over $20 million in new funding through partnerships with the Bill and Melinda Gates Foundation, the Rockefeller Foundation, Kauffman Foundation, and Visa International, among other global private and corporate foundations.

Previously, Mr. Runde was director of Office of Global Development Alliances at the U.S. Agency for International Development, or USAID. His efforts there leveraged $4.8 billion through 100 direct alliances and 300 others through training and technical assistance.

Mr. Runde, we look forward to your testimony. Thank you.

STATEMENT OF DANIEL F. RUNDE, WILLIAM A. SCHREYER CHAIR AND DIRECTOR, PROJECT ON PROSPERITY AND DEVELOPMENT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, D.C.

Mr. RUNDE. Thank you very much. It is an honor and privilege to be here to speak before this committee. I speak before you as someone who has written a series of studies on this topic and has worked on these issues for a long time.

I have three main points for the committee. The first is that this is not your grandparents' developing world, that it is richer, freer, and more capable. And second, the way in which we—and I mean "we," the West, donors, think-tankers, policymakers—think about how development happens, we need to think differently about it and include a much more central role for both the private sector,

the for-profit private sector, and host country governments because of these changes. And third, the U.S. Government and others are adapting to this changed world, but we need to go yet further so that our limited resources can go further.

So my bumper sticker would be that we have to think of the United States and other aid donors as not the largest wallet in the room, but the most catalytic wallet in the room, so there is still a very important role for foreign assistance. It matters, but we have to think of it in a different way, and we have to change our mindset around it.

So let me start with this issue about the world has changed and it is not our grandparents' developing world. So if you look at a whole series of measures, many of the countries that make up the developing world, let's say there are hundred of them, about 80 of them are on a path to being wealthier, freer, healthier, and more capable paying for their own health, paying for their own education and other public goods that development assistance provides. But it is also important to note something else that is happening.

Increasingly, many countries are able to collect a lot more taxes. Eric Postel and AID have done a lot of work on this, but there are a lot more taxes. The fancy term in our business is called a domestic resource mobilization. I wrote a report on this. If you have trouble sleeping at night, you can read my report on taxes and development, but it is actually very, very important. It is a huge force of change.

So at the same time, I want to highlight one thing. I do think there are still 20 or so of the so-called bottom billion countries that are really poor, that are fragile and weak states. We are still going to have to use a traditional mindset of traditional assistance of U.S. Government ODA leading on these sorts of problems.

I also think there are certain kinds of global challenges, whether they are pandemics like Ebola or Zika, where the United States is going to have to lead. We are going to have to use our foreign assistance and we are going to have to lead in that way.

There are roles for partnerships, but it is much more the U.S. Government continues to need to have a central role.

As a result of these changes, if you think about the way the U.S. has changed its engagement, if you look at the 1960s, 70 percent of the resources from the United States to the developing world was foreign assistance. Today, it is something like 10 percent. You both have cited these statistics.

But the problem is the following. The systems procurement, human resources, incentives, and even our founding legislation were set up in an earlier, different era. The mindset from the Marshall Plan through the 1980s operates as if the United States or the World Bank or the IMF could centrally plan the development of these poor countries. It is understandable because of the statistics that I have mentioned, so it is not a critique of a past era. We just need to evolve and adapt.

So as a result of this, the role of foreign assistance needs to change. Foreign assistance can share financial risk. AID and other agencies like the World Bank can convene. They can beta test. They can take risks. They can also put forward glue money or help force certain kinds of difficult policy conversations. AID and others

offer world-class and often unique capacities and technical and program design expertise.

So I think they are going to have to, though, work even more closely with these larger forces that are out there. These forces, by that I mean taxes in developing countries, foreign direct investment, local capital markets, because these are much harder larger forces, and they dwarf ODA or development dollars.

The other thing is, I think as we think about this changed landscape, we want to think about how we work more closely with the private sector. We certainly work in partnership, and Eric has referenced that.

I just want to say that public-private partnerships are not a Republican thing or a Democratic thing. Secretary Powell and my friend Andrew Natsios when he was the head of AID helped support getting that off the ground. And then Secretary Clinton when she was Secretary of State worked very hard to evangelize on partnerships and operated in a multisector partnership way.

USAID has built partnerships with some of the best companies in the world, including Coca-Cola, Chevron, and Walmart. And the partnerships have allowed AID to tap into supply chains, the ability for foreign direct investment, technology, and standards.

Let me just take 30 more seconds, if I could, Mr. Chair.

So what would I do in terms of what are the things we could do to do more around this sector? I would think about a couple things. Focusing on broad-based growth as a central organizing principle for U.S. development policy. I think we need to yet further align U.S. development instruments with the private sector.

There are some specialized agencies and instruments that could use a little bit more money. I think the U.S. Trade and Development Agency is a great agency. I would double their budget. I think Lee Zak is one of the best leaders in the Obama administration. That is a great agency.

I would increase OPIC's combined statutory ceiling for financing and risk insurance and allow OPIC to retain some of its profits.

I would also further emphasize partnerships at AID and ensure flexibility to create them. There has been a lot of progress there, but there are a lot of workarounds that are required.

Finally, we need to continue to shift the operational culture of U.S. Government agencies toward private sector engagement.

With that, I will cede my time. Thank you, Mr. Chair.

[Mr. Runde's prepared statement follows:]

PREPARED STATEMENT OF DANIEL F. RUNDE

Chairman Perdue, Ranking Member Kaine, distinguished Members of the subcommittee, thank you for asking me to testify before you today. It is a privilege and an honor. As an expert on international development, I am speaking as someone with extensive experience on the central role of the private sector in development, and also having successfully created partnerships during my time in the Bush Administration at USAID. I have also had past roles in investment banking, commercial banking, corporate philanthropy, and with the World Bank Group. I currently hold an endowed chair at the Center for Strategic and International Studies and in that capacity, I have carried out four major studies related to the issues we are going to discuss today.

My central message to this committee is that rather than having the largest wallet, the United States and other aid donors need to understand that they are often the most catalytic wallet in the room.

I have three main points I want to communicate. First, it's not your grandparents' developing world any more—most developing countries are richer, freer, healthier and more capable than 40 years ago because of globalization, an embrace of free (or freer) markets, better public policies, and a move towards democratic government and/or more "accountable" governance. Second, the way in which "we" (the West as official donors, academia, policymakers, and others) understand how development "happens" has also changed with a much greater role for the private sector. Third, the U.S. Government and others are adapting to these changes but could go farther so that our limited (but important development assistance resources) could achieve greater impact and be focused on the things that developing countries want from us.

Let me start with the fact that the world has changed.

If you look at a whole series of measurements many of the countries that make up the developing world are richer, freer, healthier, and more capable of paying for their own health, education and other public goods. This is a great thing. These wealthier and freer countries can often help "burden share" on security and other global public goods, they trade with us, and engage with us on science and innovation and they often buy into a whole series of assumptions about how the world should work.

Of course there are still 20 or so so-called "Bottom Billion" countries. These Bottom Billion countries are fragile or failed states where terrorism is bred and pandemics accelerate. These countries will continue to require a mix of traditional foreign assistance and new solutions to achieve prosperity and security.

As a result of these dramatic changes, the U.S.'s economic engagement has changed radically in the last 50 years with the developing world. Most of our economic engagement and most of our allies in Europe and Japans' engagement with the developing world is foreign direct investment, global trade, and global capital market flows, not foreign aid. These flows dwarf the resources of all official development assistance. There are also large donations of philanthropy, remittances, and other forms of private charity emanating from the United States that when added up are also larger than U.S. official development assistance.

This brings me to our first problem. The systems, procurement, human resources, incentives, and even our founding legislations were set up in an earlier, different era. The mindset from the Marshall Plan through the 1980s operated as if the United States or the World Bank or the IMF could centrally plan the "development" of these poorer countries. It was understandable as to why this was believed. In the 1960s over 70 percent of resources from the United States to developing countries came in the form of aid. This was true, in fact, of most wealthy countries during this period. Yet, the assumption remains that United States and other donors remain the "biggest wallet" in the room when, as I have explained above, this is far from the case.

As the role of aid diminishes in comparison to private capital, aid agencies can share financial risk, convene, beta-test, and put forward "glue money" for multi-stakeholder programs and ideas. Agencies like USAID offer world class and often unique capacity building, technical and program design expertise, and often underestimated convening power. Increasingly aid agencies work more closely with these other, larger forces.

Second, the way in which we understand that "development" happens has changed.

Let me take a moment to make an important distinction between "development" and U.S. "development assistance". In my chapter in a recent e-book called "Choosing to Lead" I defined these two terms as:

> [Development] assistance does not equal "development." The word development denotes domestically driven economic and social progress encompassing economic growth, political freedom, improvements in health, literacy, education, and other quality-of-life measures. Each society is responsible for its own development, more or less by definition. Development assistance, on the other hand, describes a facet of American foreign policy and that of other wealthier countries. But it is not the only related facet of U.S. policy. Some U.S. government assistance provides emergency humanitarian relief in the face of short-term crises, most often of natural origin (floods, earthquakes, and the like). The U.S. government and associated institutions like the International Red Cross are well regarded and admired for their capabilities as a humanitarian aid provider. Longer-term "development assistance" often takes many years to affect systemic problems, if it can do so at all. It overlaps with the U.S. capacity to undertake humanitarian crisis triage, but it has different methods and aims.

Let's consider "development" and how it happens. A series of international agreements that form the basic operating system for developing countries and aid donors have traced this shift. These agreements are divided into three general categories and try to answer three questions. The first question is "What kind of societies do we want?" This question has been first addressed by the Millennium Development Goals (MDGs) and now by the Sustainable Development Goals (SDGs). The next question considers "How will we pay for development?" This question has been sought to be answered by a series of conferences on Financing for Development organized by the United Nations. In shorthand, these are known as "Monterrey" (2002), "Doha," (2008), and "Addis Ababa" (2015).

The final question is "How does development actually happen?" A series of meetings called theHigh Level Forums on Aid Effectiveness organized by the Organization for Economic Co-Operation and Development have tried to answer this final question. In shorthand, these are known as "Paris," (2005) "Accra," (2008) and "Busan" (2011). Busan announced a new "Global Partnership for Effective Development Co-operation," which seeks to monitor the implementation of these agreements around improved aid and development effectiveness.

These three streams of agreements have all been moving towards a recognition of the role of country governments and the private sector as the key actors in international development, with USAID and other bilateral donors as much smaller but catalytic actors. For example, the MDGs included a goal on partnerships, but this was almost as an afterthought. In contrast, the SDGs put emphasis on partnerships and speak of "revitaliz(ing) the global partnership for sustainable development." Monterrey, Doha, and Addis Ababa each reference the private sector as an important actor in international development, but the emphasis has expanded each year. Monterrey's outcomes document includes five paragraphs in its "Domestic and International Private Business and Finance" section, while Doha has seven and Addis Ababa has 15. Addis Ababa speaks of "partnerships" 28 times, which is more than twice the usage of this term in the previous two documents.

It's very important to note something else that has happened: increasingly, many countries are taking control of their own futures through their own investments and the taxes they collect. A rising global middle class is better able to contribute tax dollars to their national and local governments. These citizens are also demanding more in terms of good governance, delivery of services, and general quality of life. Additionally, foreign companies in these countries are better able to join the international development conversation through partnership with governments and joint ventures with companies in developed countries. As globalization leads companies and other private sector actors to broaden their engagement geographically and grow their wealth and expertise, there are increased opportunities for new partnerships. Accordingly, we need to adapt a different way of thinking to remain effective.

Third, this changing global landscape requires official donors to focus their attention on working more closely with the private sector.

One of the ways in which the United States has responded is to think about how we work in partnership with the private sector. In 2011, I directed a report called "Seizing the Opportunity in Public-Private Partnerships" and we defined partnerships as:

> an approach to solving development problems through a coordinated and concerted effort between government and nongovernment actors, including companies and civil society, leveraging the resources, expertise, or market efforts to achieve greater impact and sustainability in development outcomes.

The good news is that the U.S. government and the international community have sought to work more closely with the private sector. This is reflected in the success of the Global Development Alliance at USAID. USAID has put together approximately 1,600 partnerships since 2001. In 2011, a report by the OECD described USAID as a leader in public private partnerships. USAID has built partnerships with leading U.S. businesses, including Walmart, Chevron, Coca-Cola, and others. These partnerships have sought to tap not only the financial wherewithal of these companies, but also their unique knowledge and skill sets. One example is the Angola Partnership Initiative built with Chevron beginning in 2002. Although this is an older example, this partnership was not only important in the impact that it had on the ground through economic development, but it also opened the eyes of other corporations and USAID leadership to the viability of partnerships. There are many examples of successful partnerships.

Public-private partnerships are not a Republican or a Democratic concept. The Global Development Alliance initiative was supported strongly by former President Bush, then Secretary Powell, and my mentor and friend, former USAID Adminis-

trator Andrew Natsios. The Global Development Alliance was developed and led by a group of civil servants and foreign servants, especially Holly Wise and Curt Reintsma. Former Secretary of State Hillary Clinton was also a big proponent of partnerships during her tenure. She called upon a number of folks including Jim Thompson, a civil servant from USAID, and now the Director of Innovation at the State Department, to innovate and evangelize partnerships within the State Department and across the inter-agency.

However, many systems, rules and instruments still reflect a past set of assumptions of how development happens and that seem to ignore the central role of the private sector and the catalytic (not central) role of aid agencies. These include inflexible instruments, overly earmarked money and processes, lack of incentives at leadership and middle management levels, outdated procurement rules and stifling regulations, and a very aggressive counter-bureaucracy that support the United States as the "largest wallet" rather than a "catalytic wallet."

It is important to note that partnerships are not the solution to every global problem, but rather one important approach. Yet they offer the promise of collaboration to tackle some of the world's most intractable issues; issues that no entity can solve on its own. Some challenges will continue to require the U.S. government or other governments to lead with development assistance. For example, the response to pandemics including Ebola and Zika must be led by government, but we have seen that they can never be wholly solved by government acting alone. Other challenges, including human rights, democracy promotion, and governance issues, do not necessarily lend themselves well to partnership approaches.

Partnerships, however, represent just one facet of how development agencies can engage with the private sector. The United States, and other bilateral donors, should look to strengthen their existing development finance institutions (DFIs); in the case of the U.S. government, this means the Overseas Private Investment Corporation (OPIC). OPIC and other DFIs offer financing instruments (loans, loan guarantees, and risk insurance) to private sector entities seeking to make investments in developing countries. This support for the private sector is critical in countries where access to finance is limited, but demand remains high for investment, and OPIC and other DFIs can help to "crowd-in" private investment.

The momentum around private sector engagement and partnerships as key drivers of international development is growing. Expanding and improving partnership policy and mechanisms should a focus of U.S. government agencies as they continue to be world leaders in international development.

In closing, I offer the following responses to the Chairman and Ranking Member's specific points of inquiry with respect to this hearing.

1. Please discuss your views on how the U.S. government partners with the private sector to leverage U.S. taxpayer dollars.

The United States operates in several kinds of public-private partnerships for international development:

1. *Development finance instruments that make use of guarantees and loans to "crowd in" the private sector.* This approach is led by OPIC and other development finance instruments including the Development Credit Authority (DCA).

- The U.S. government should lift the ceiling on OPIC lending and insurance and allow it to increase its number of full-time employees. The U.S. government should also raise the lending ceiling for DCA instruments.

2. *Mixed finance for large infrastructure projects.* While the U.S. government has largely moved away from global infrastructure investment in recent years, U.S. government actors including the Millennium Challenge Corporation (MCC), the U.S. Trade and Development Agency (USTDA) and multilateral organizations including the International Finance Corporation (IFC) invest in infrastructure projects including privatized roads and airports.

3. *Partnerships that bring together a government agency such as USAID or the State Department and one or more private sector actors, including for-profit companies, business associations, NGOs, and others.* These are funded by grants and combine public and private assets and resources for a specific development objective.

- USAID has been a world leader in public-private partnerships (PPPs), highlighted by its successful Global Development Alliance (GDA) model. Since it was established in 2001, USAID has engaged in over 1,600 PPPs in every region of the world.

2. What are the benefits and challenges of these public-private partnerships?

Benefits:

- PPPs bring needed private sector financing to the table.
- Companies bring their global supply chains, Foreign Direct Investment (FDI), formal jobs, attention to environmental and labor standards, and new technologies.
- Involving companies in a development project can also lead these initiatives to be more effective and efficient. This is especially the case when a company has a clear business interest in the initiative. Long-term business interests in the communities where PPPs are implemented can bring scale and long term engagement.

Challenges:

- Partnerships require that the U.S. government answer a couple of challenging questions that are not present in traditional development projects. The first relates to forming partnerships—"how do you get people to work with you who don't work for you?" The second relates to durability of the partnership—"how do you keep people working with you who do not work for you?"
- Partnerships are more time-intensive to structure than traditional development projects.
- It can be difficult for companies to work with U.S. government systems.

3. What can businesses do that the U.S. government cannot?

In addition to providing needed financing, private sector partners also bring other important resources to partnerships—technical expertise on topics including health, agriculture, and technology; innovation; their supply chains.

4. How are the interests of the U.S. government safeguarded when partnering with other entities?

I will use USAID as a proxy for the answer to this question.

USAID has sought to balance its fiduciary duty to taxpayers and the U.S. Congress and to its beneficiaries with the changing world that I described above. There have been several innovations that are within the Federal Acquisition Regulations and USAID's policies and procedures. These include the release of a partnership "Annual Program Statement" which explicitly invites outside actors to submit statements of interest on potential partnerships that address areas of need in developing countries. Second, USAID has developed something called the Collaboration Agreement and something else called the Broad Agency Announcement which allows USAID to try new approaches to engaging with private actors and co-designing projects.

USAID also engages in various forms of due diligence with various new partners.

5. How can we further leverage and multiply the impact of U.S. taxpayer dollars in foreign aid in the future?

Given that private investment is so central to international development, it is important that the U.S. government continue to empower the instruments that leverage global private investment. This includes:

- Follow through on CSIS's 2013 bi-partisan Development Council recommendations:

  (1) Make Broad-based Growth the Central Organizing Principle of U.S. Development Policy including shifting $350 million from other foreign-aid accounts to economic-growth activities and promoting entrepreneurship through development finance and technical assistance.

  (2) Align U.S. Development Instruments with the Private Sector including: Program 25 percent of development agency funds through partnerships, Simplify and streamline partnership formation, coordination, and planning and Leverage U.S. business practices, supply chains, and training
- *Doubling USTDA's budget from $60 million to $120 million.* USTDA has 30 years of experience in project preparation and documented success in completing highquality infrastructure projects. USTDA Director Lee Zak is an incredibly able leader.
- *Increasing OPIC's combined statutory ceiling for financing and risk insurance and allow OPIC to retain some of its profits.* This capital can be used to pay for hiring the additional full-time employees that OPIC needs to source and structure deals in the United States and overseas.

- *Further emphasizing partnerships and ensuring the flexibility to create them throughout USAID.* While partnerships have largely been mainstreamed within USAID, there is opportunity for further emphasis on this throughout the Agency. USAID needs some additional "centrally managed" money that USAID missions should be able to access and this money should be managed by USAID's Global Development Lab. USAID should continue building the capacity of its policy and personnel towards more flexibility, more utilization, and more creativity.
- *Continuing to shift the operational culture towards private sector engagement.* There have been a significant set of cultural and generational changes, including changes in incentives, that have created spaces for innovators within the U.S. government. Partnerships have become much more "democratized."
- *Reflecting this mindset change.* USAID's mission even states that it "partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity." However, there are still some people within the U.S. government with a different theory of change; These folks still view themselves as having the largest wallet in the room, see the private sector as basically bad, have a very hard time accepting that a company might be making a profit in a developing country and view a "business case for development" with suspicion. There are a separate set of problems related to success in partnering including several parts of the USG reaching out to the same company or seeing the private sector as "just a purse" or another "funding account." The solution is constant messaging and modeling of good partnership practice from senior management at agencies like USAID, State and the MCC.
- *Move toward networked multi-stakeholder partnerships.* USAID is moving away from smaller, one-time partnerships to these types of coalitions and should continue doing so, while engaging more and more kinds of partners locally. Ultimately, USAID's goal should be to work itself out of a job.

Senator PERDUE. Thank you. We look forward to following up on some of that. It is very interesting.

Our final witness today is Mr. Michael Goltzman of the Coca-Cola Company. Welcome.

Mr. Goltzman has been with the Coca-Cola Company since 1997 where he has held a number of roles. He worked for more than a decade on international public policy and trade policy in Coke's D.C. office. He worked in Hong Kong for the company's Asia Public Affairs Department. And from 2009 to 2012, he served as the director of public affairs and communications for the Middle East and North Africa business unit responsible for 33 countries. In 2012, he was named vice president of international government relations and public affairs.

Prior to joining Coca-Cola, he worked in France with U.S. Ambassador Pamela Harriman.

Mr. Goltzman, we look forward to your testimony. Welcome.

STATEMENT OF MICHAEL GOLTZMAN, VICE PRESIDENT, INTERNATIONAL GOVERNMENT RELATIONS AND PUBLIC AFFAIRS, THE COCA–COLA COMPANY, ATLANTA, GA

Mr. GOLTZMAN. Thank you very much, Chairman Perdue and Ranking Member Kaine. I am really delighted to be here. As you mentioned, I did work in the field for both Coca-Cola as well as here in the United States, so I have seen the benefits of public-private partnerships firsthand.

As our CEO Muhtar Kent likes to say, really the best and most efficient and sustainable way to address some of the global challenges that our societies face is through a Golden Triangle partnership model, bringing together the expertise of government, business, and civil society.

And the Coca-Cola Company has been pleased and proud to be a partner with the U.S. Government for many years, including the U.S. Department of State and USAID, specifically.

In my written testimony, I mentioned three specific partnerships, Project Last Mile, the work we do with USAID, the Global Fund and the Bill and Melinda Gates Foundation; our water and development alliance with USAID; and the Coca-Cola Middle East and North Africa Scholars Program that is in its fifth year of partnership with the U.S. Department of State.

In order to maybe give you a better understanding of the true impact that these public-private partnerships can have, I thought I would just talk specifically about one of the programs, Project Last Mile.

As I am sure all of you know its background, the Global Fund was created in 2002 because the global community decided that we needed to help developing countries with the money they needed to purchase the critical medicines to treat HIV/AIDS, tuberculosis, and malaria. The U.S. Government and other major governments were the biggest donors and provided massive funding to these countries to purchase the needed medications.

Through Project Last Mile, we are ensuring that these medications truly reach the last mile. We are leveraging Coca-Cola's supply, distribution, and marketing expertise to help build capability in African ministries of health so they can do their job better.

For example, we are using Coca-Cola's route-to-market expertise to help governments think about the most effective and efficient distribution models. We are benchmarking Coca-Cola's best practices for tracking how we measure our beverages that are out of stock and helping governments think how they measure and create better systems to track out of stocks of these critical medicines.

We are sharing our guidelines for how we repair and maintain our stock of refrigerators in the market that cool our beverages and to help the governments do the same thing for their refrigerators that take care of the vaccines.

And we are sharing our human resource systems and our marketing expertise, similarly, with the governments.

So what impact has all of this work had? When we started Project Last Mile at the beginning, out of stocks in Tanzania, one out of two times that you went to your local clinic, your medicine was not available. Today, eight out of 10 times that you go there, your medicine is available.

Before we started, it took 30 days for a clinic to be resupplied with medicine that was out of stock. Today, it takes 5 days.

Before, there were no individual objectives for ministry employees. Today, using Coca-Cola's performance management system, all ministry employees have individual performance objectives, and this allows the ministry to develop incentive programs to incentivize better performance.

In terms of third-party suppliers that often are the distributors for many governments, before, in Mozambique, there was no third-party contract management system. And now, using the system that Coca-Cola pioneered for our use of third-party contractors, the ministry has a benchmark for doing that and is able to measure what they are paying against other private sector actors.

And finally, in terms of refrigeration, prior to us going into work with the ministry in Ghana, they were using 80 types of refrigerators and had high rates of breakdown for their refrigeration systems. Coca-Cola uses less than 10, does preventive maintenance on all of its refrigerators. And, therefore, we have been able to help them create a benchmark for how they could improve their refrigerator uptime.

All of this means that together USAID, the Global Fund, and Coca-Cola are building capability within African governments and maximizing the spending that the U.S. Government is already allocating by making that spending more efficient, using the latest private sector models for distribution, supply chain efficiency, and to ensure a steady supply of all of these critical medicines.

I am happy to talk about the other partnerships later on and answer any of your questions. Thank you.

[Mr. Goltzman's prepared statement follows:]

PREPARED STATEMENT OF MICHAEL GOLTZMAN

Chairman Perdue, Ranking Member Kaine, members of the subcommittee, thank you for the opportunity to discuss an important area of the U.S. government's work overseas—Public Private Partnerships in Foreign Aid.

On behalf of the more than 700,000 Coca-Cola system employees globally, we are pleased to participate in today's hearing. As our Chairman and CEO Muhtar Kent often states, neither business, government nor civil society can solve society's greatest challenges on its own. It is only through collaboration and creating a "golden triangle" of partnership that we can make progress toward addressing global development challenges and specifically the newSustainable Development Goals (SDGs). As someone who has worked for The Coca-Cola Company both at our corporate headquarters and also in North and West Africa, I can speak from first-hand experience about the positive impact that public-private partnerships have on local communities.

The Coca-Cola Company has been a proud partner of the U.S. government, and with USAID and the State Department specifically, for many years. Although there have been many collaborations between The Coca-Cola Company and USAID and the State Department, I would like to focus on three that illustrate our belief that we can do more good for more people when we act together than we can when working alone:

1. Project Last Mile, a partnership between the Company, USAID, the Global Fund on HIV/AIDS, Tuberculosis and Malaria and the Bill and Melinda Gates Foundation, to build supply chain and distribution capability in African Ministries of Health; and
2. The Water and Development Alliance (WADA), a partnership between The Coca-Cola Company and USAID to increase access to clean water and to improve water stewardship in developing countries.
3. Coca-Cola MENA Scholars program, a partnership between The Coca-Cola Company, Indiana University's Kelley School of Business and the U.S. Department of State that brings 100 Arab college students to Bloomington, Indiana for a month of business and social entrepreneurship training.

(1) Through our work on Project Last Mile, we share Coca-Cola's logistics, supply chain, distribution and marketing expertise to help African governments maximize their own capacity to deliver critical medicines and medical supplies the "last mile" to remote African communities. To date Project Last Mile has reached regions within seven countries including: Tanzania, Ghana, Ethiopia, Mozambique, Nigeria, South Africa, and Zambia. This work clearly demonstrates the value of public private partnership because through our joint work we are able to increase significantly the efficiency of the U.S. government's aid that supports the purchase of medications to treat HIV/AIDS, tuberculosis and malaria. For example, the U.S. government and other major donors, such as the Global Fund, provide the vast majority of the funding to African governments for the purchase of these critical medicines. Through the Project Last Mile partnership, we ensure that we are sharing the most up-

to-date private sector models for distribution, marketing, and supply chain efficiency with African governments. We help establish systems to track out of stock products; create human resource systems that allow governments to track employees' objectives and performance, and benchmark private sector spending on third-party services to ensure optimal use of public funds.

(2) Through the Water and Development Alliance (WADA), Coca-Cola is partnering with USAID to address the lack of access to clean water and sanitation that create a significant drag on communities' development. According to the World Health Organization's Joint Monitoring Program 2015 report, 319 million sub-Saharan Africans and 260 million Asians lack access to clean water, and hundreds of millions of people across the developing world lack access to sanitation. Lack of clean water access means that women and girls spend significant amounts of time and energy fetching water for their families, which takes them away from education and productive economic activity as well as creating other obstacles for sustainable local development.

♦ In response to the severe clean water access challenges faced in Africa, The Coca-ColaAfrica Foundation (TCCAF) introduced its flagship program, RAIN, in 2009. RAIN is The Coca-Cola Company's (TCCC) contribution to helping Africa achieve the United Nation's Global Sustainable Development Goals on clean water and sanitation access. The program has reached over 2 million people across 37 African countries through 2015. And by the end of 2020, it is estimated that TCCAF and its partners will measurably transform 6 million Africans' lives through water-based initiatives, sanitation, and hygiene; economically empower up to 250,000 women and youth; promote health and hygiene in thousands of communities, schools, and health centers; and return up to 18.5 billion liters of water to nature and communities.

♦ These programs improve access to safe water in communities reducing the incidence of water-borne diseases and eliminating the dangers of retrieving water from distant and inaccessible sources. USAID and Coca-Cola have partnered on 35 programs in 30 countries across the developing world since WADA's inception in 2005, including 30 programs in 20 African countries. With over $39MM of investments to date, the WADA partnership has reached 520,000 people with water, 210,000 people with sanitation, and put 400,000 ha under improved watershed management. In June of this year, Coca-Cola and USAID extended the Water and Development Alliance through 2021, with two additional programs in development in Madagascar and Nigeria and many more to come.

(3) Through the Coca-Cola MENA Scholars program, the Company is delighted to work with theU.S. Department of State to help create the next generation of entrepreneurs across the Middle East, North Africa and the Near East. More than 500 college students have participated in the program, including the latest class of scholars which arrived in Indiana two weeks ago to develop business plans for their social or business entrepreneurship ideas. Whereas entrepreneurship is cultivated in many young Americans, most Arab college students are seeking job opportunities with large companies or government bureaucracies. Through this partnership, we have the objective of providing young people with both the skills and confidence to be their own bosses, by developing coherent business plans that can create jobs in their home countries. Many of the scholars have gone on to create small and medium-sized enterprises (SMEs), including public relations firms, restaurants, and NGOs, and we have even hired a few as interns and employees both in the region and in the United States.

Since Coca-Cola is a local business in every country where we operate, our beverages are produced locally, using local ingredients, local employees in local factories and distributed through local networks to the outlets where consumers purchase them. We pride ourselves on being a local business that contributes significantly to local employment and economic activity. As a local entity, with a strong tradition of community investment over our 130-year history, we also feel a responsibility to help address community challenges, such as water stewardship, women's economic empowerment and building stronger local communities.

While the United States remains the Company's leading market for our beverages, 80% of our sales comes from outside of the United States. Partnerships with the USG allow the Company to expand the scope and impact of our interventions, to play a positive role in contributing to local communities' development and to ensure that our work leverages the broader development initiatives financed by the

U.S. government and other donors. Furthermore, by partnering with the U.S. government and others in ways that complement our expertise and resources, we can be assured that our development partnerships are as impactful as possible. In short, as noted earlier, we are stronger together than we are alone.

Since our overseas sales are so important to the Company's global business, much of the work done at our corporate headquarters supports our business outside of the United States. In fact, one out of every 6 jobs at our global headquarters in Atlanta, Georgia is directly tied to our international business.

The most challenging aspect of working on public-private partnerships with the U.S. government has been the time it takes to go from identifying an opportunity to implementing it on the ground. However, the U.S. government is not unique in this respect. When The Coca-Cola Company works with other governments around the world, we face similar timing challenges. In addition, the U.S. government has made improvements that create greater flexibility, speed and willingness to collaborate. For example, The Coca-Cola Company works both with USAID's dedicated partnership office as well as the USAID Innovation Lab, and these efforts have improved the efficiency of our interactions.

In general, governments often have legislative mandates on which types of development programs can be used for specific funding sources. In the development world, government agencies often refer to these legislative mandates as the "color of the money," which limits how that money can be spent. For example, some funding could be specifically mandated to treat specific diseases, and the rigidity of these mandates can make it challenging at times for companies. However, to date, we have been able to overcome these challenges in partnership with the U.S. government agencies involved.

As public development assistance funds continue to face budgetary hurdles, it is important that the private and public sectors coordinate more closely to achieve mutual development goals. Coca-Cola has learned that its local business is only as sustainable as the community it serves. Programs such as Project Last Mile offer a clear model for future collaboration that bases aid in programs valued and supported by both business and civil society actors. Our focus is continuous improvement, measuring results and capturing lessons that will allow us to take these partnerships to even greater scale for shared benefit of all.

Thank you.

Senator PERDUE. Thanks to all three of you. In light of the time, I am going to be very brief. I will just have one question now defer the rest until later and make sure the other members get a chance to ask their questions before the vote.

Today, we have a global situation that is unlike any time in my lifetime, maybe in the history of the world, with 65 million people somewhere in the world having lost their home and they are wandering around somewhere. A few months ago, a few of us—and all of us have made trips to visit with these refugees and so forth. But this is not going to go away.

Even if we could stop the fighting today, and let's take Syria as an example, what would these people go home to?

So I think you have a growing third class of developing country, if you will. You have the first class that is sort of developing and it is richer and freer, as you said. Then there is this second tier that is just getting started, and you have to be kind of traditional in that approach, you said. And now there is this third that possibly was a developed country that has been torn down by war.

I would like all three of you, from your different perspectives, you have a private player here, a very big one in Coca-Cola that can represent other private, and two great players from the state participation. How can we look at that in this PPP model to come up with possibly a Marshall Plan, if you will, for the 21st century relative to some of these countries in the Middle East and now in sub-Saharan Africa where we have some failed states?

Senator Coons spent a lot of time, has spent a lot of time in Africa, and can speak to this later, too.

But I am interested in your feedback about how we should be thinking about it legislatively up here relative to how we can help the PPP model. Can it be a player in this new generation of need?

Mr. POSTEL. Thank you for your question, Senator.

For my comments, I would say that one thing that we have learned in some of the other postcrisis countries is that there is a whole series of stages to this.

Immediately after a terrible tragedy like this, we have seen that big multinational investors may be a lot more conservative and will be cautious and say I do not know if it is time yet. The first people we see going in to make investments and help rebuild the country are often the diaspora.

So one wants to have tools that can encourage them, because they often have connections, family connections even, in the country. We have seen this in a number of cases.

Then as time goes by, there is more evolution to maybe regional players, and you see certain sectors come in sooner than others. For instance, mobile phone companies came in much earlier to Afghanistan than certain other people, because you can imagine the risk to build a power plant with a 20-year payback versus phones.

So we have to have flexible tools. In the very early days, we have to be realistic about who is going to come and in what quantities, but have tools to support them and try to accelerate them moving in.

But if we are talking about the scale of Syria, that is going to require a lot of work by a lot of us because the scale of that is sadly unimaginable almost. Thank you.

Mr. RUNDE. Thank you for that very important question. I think that is a very good way to classify the problems. I think our comments sort of excluded the global refugee crisis, the largest since World War II.

There is a whole series of geostrategic and security reasons why we have the global refugee crisis, I would say. We have done several things on this. We just did a conference on this a couple months ago, and we are going to be coming out with a report on the Northern Triangle of Guatemala, Honduras, and El Salvador, because I think the U.S. Congress has been very generous in making available additional monies to look at that, and I think it is also part of the global refugee crisis.

So my points, I will start with what we ought to do and then how you bring in other partners. I think the most important thing is fund the emergency. I think we are underfunding some of the emergency resources that are needed there. Certainly, manage the migration and have a more managed migration process.

I think where you have aid dollars where you can make a difference, but it takes a long time, in addition to the emergency side, is the issue of the so-called root causes or the push factors. I will get back to that in a second.

I think a fourth point would be, okay, within camps and within sort of in between, you have seen some attempts at either generating job programs or trying to operate some sort of private sector activities in these migration camps. I think that is intermediate sort of solution.

But I think the most important thing we should be thinking about is how we deal with the push factors. None of the push factors or these root causes are solvable on a 12-month timeline or a 36-month timeline. They require political will.

I will use the Northern Triangle as an example because I have been to all three of those countries on separate trips in the last 3 months. If you ask them, they are leaving because of security issues, their personal security, or they are leaving because of economic opportunity issues. So there is a role for the private sector in that, in terms of things like we need to make it easier for businesses to start and operate in those countries. We need those companies to participate and actually pay taxes. They have some of the lowest tax-paying in the world and tax rates compared to percentage of GNP. There is also terrible corruption.

So we need an improvement in making sure that it is attractive to operate as a business in those countries, so they can hire people as well as have governments that actually deliver and make people feel safe and are not corrupt, and also have people reestablish the social contract in these countries.

That is easy to say in the Northern Triangle, and throw on a conflict in some other parts of the world, it makes it even worse.

Mr. GOLTZMAN. I think I would just add, if we look at some of the other—for example, the recent tragedies and crisis around Ebola, I think that offers us another opportunity to look at the opportunities for more partnership.

Certainly, there is a need for greater coordination and creating mechanisms that actually empower the local governments to be the ones doing that coordination. Coca-Cola did a lot with its local businesses in each of the Ebola countries, and we needed to be able to really funnel in and use that crisis as a way of creating capability in the local government to manage the next crisis that will come as opposed to just coming in and doing it for them.

I think the other thing is really creating that opportunity for flexibility in the partnerships, so that all kinds of actors, as my colleagues have said, can come in and contribute to that in a way it really goes to their expertise and their ability to contribute. We do not always have the mechanism for people to do that.

Senator PERDUE. Thank you.

We will move to the ranking member.

Senator KAINE. If I could, Mr. Chair, I would like to defer my questions and swap places with Senator Coons for purposes of time.

Senator PERDUE. Absolutely.

Senator COONS. Thank you, Chairman Perdue, Ranking Member Kaine. Thank you for convening this hearing, and thank you for your great work in this area, and to my good friend Senator Isakson.

I will just start, Mr. Goltzman, by saying I think I first visited a Coca-Cola project, water purity project, in the field at the instigation of my good friend Senator Isakson when we were in West Africa together 5 years ago. And I got a chance to see in 2014 the work you did, and many did, from the private sector in the response to Ebola in Liberia and was genuinely impressed and grateful for the work of many in the private sector in the response to that particular crisis.

Let me ask three brief questions, if I might, and the other two members of the panel might give whatever response you choose to these.

First, I am interested in USAID's Office of Private Capital and Microenterprise, in its approach to working with the private sector, has performed so well so far and whether the ways in which it has worked well might be used as a model for partnering with the private sector in solving other development challenges.

Second, a question about OPIC and whether an empowered OPIC or U.S. Development Finance Corporation might make a bigger difference in deploying private capital.

And last, Mr. Goltzman, you mentioned engaging the diaspora is often an important early stage response mechanism where there are countries that are genuinely torn apart by violence, as the chairman had suggested, any further thoughts on how to more effectively engage the diaspora.

Given the press of time, if you would just keep your answer concise, I would appreciate it.

Thank you, Mr. Chairman.

Thank you, Senator Kaine.

Mr. POSTEL. Thank you for your question, Senator.

The private capital group, the staff of that came out of prior efforts. They literally were the folks who worked on the Feed the Future commitments and the Power Africa commitments. So basically what they are trying to do now is to work with the rest of the agency to take this to other sectors and other country teams and things like that.

So it is early days, but they are making progress either on trying to develop some innovative specific transactions, like there is one they have been working on in solar energy, as well as more sectoral-wide things.

Like if you talk to African entrepreneurs, they will agree that among the most conservative investors out there are African pension funds due to some local rules and regulations in those countries. So that office is looking to try to work with all those pension funds, marry it up with United States experts to try to unlock some of that. It is another source of capital.

Then I will just briefly say that we are very supportive of both OPIC and our Development Credit Authority having a little more freedom to fly, as it were.

It is amazing how both of them, they have special OE accounts, which the profits from the operations will repay, and yet they do not have the flexibility to add even three or four more people that can let them do more projects.

So there are some really simple fixes, and we are really supportive of our colleagues at OPIC as well as we see the same thing in DCA.

Thank you.

Mr. RUNDE. Thank you. Thank you very much, Senator.

Just let me start with the issue of OPIC. I have done a lot of work on development finance. I have worked at a development financial institution. I have had past lives.

I would just say a couple things. The growth of development finance investments catalyzed is growing, if you go back to the year

2000 to now, if you look at all the different donor countries that have DFIs like OPIC, the amount of investments has increased seven times. So from $10 billion to about $77 billion.

And then in the same period, ODA, traditional development assistance mainly through grants and loans, has gone from about $60 billion to $130 billion, so it has increased two times.

So my thesis is that sometime in the near future, those lines are going to cross. So OPIC and DFIs are going to be, because of this changed world we are talking about, including things like the Development Credit Authority or the Office of Private Capital, these are increasingly going to be important parts of how the United States engages with the world.

I will also make a plug. I think Elizabeth Littlefield is a great leader of OPIC. I am sorry, I will say that, for the record.

Senator COONS. I will agree.

Mr. RUNDE. And I do think, though, that her biggest constraints are FTEs, meaning bodies. She has something like 200 bodies. I think she had to fight to get one person overseas.

I do think that OPIC more or less is the development finance institution. I think there are some great ideas from some of my colleagues and other think tanks about a development finance bank. That may be hard to do, but I think if we could get at this in pieces and move this incrementally, so increase the number of FTEs, allow OPIC to have some additional flexibility.

The one that is often talked about is equity authority. It is a longer conversation, but I would say given the way the world is going, we are going to want to use instruments that work more closely with foreign direct investment.

I also think in an era with the Asia Infrastructure Investment Bank, I think there is a before and after AIIB. So I think we have to think more strategically about how we offer developing countries in this first category that the Senator was talking about, these countries that are growing. What they want from us, oftentimes, is infrastructure.

So I think we are going to have to think differently about infrastructure. That means TDA. That means OPIC. And it means certain kinds of technical assistance as well from AID. So we are going to have to think strategically about it.

So I think OPIC should be bigger and is going to be bigger because that is the way the world is going.

Mr. GOLTZMAN. The only thing I would add is with regard to your last question about engaging the diaspora, I would just note that Coca-Cola is a supporter of a network call the Global Shapers that is part of the World Economic Forum. It is for the under-30 crowd.

If we look at what happened after the Nepal earthquake or after the earthquake in Ecuador earlier this year, those groups were mobilized in their local municipal hubs very quickly.

So I think there is an opportunity to really use technology and the crowdfunding work that is already going on, and to try to tap into that and maybe help governments create the resources and the platforms that allow the diaspora community to really immediately plug in both with their funding and their expertise in the event of such a crisis.

Thank you.

Senator PERDUE. Senator Isakson?

Senator ISAKSON. Thank you, Mr. Chairman. I think the record should reflect that when Coca-Cola shows up, all the Georgia Senators show up. [Laughter.]

Senator ISAKSON. With all due respect, Mr. Postel and Mr. Runde, that is one of the main reasons both of us came. [Laughter.]

Senator ISAKSON. I am one of those people who got elected to the United States Senate thinking I could balance the budget and end the deficit by doing away with foreign assistance. I beat my chest on that message in my campaigns, and I came up here and realized that foreign assistance was less than 8/10th of 1 percent of discretionary appropriations, yet it was 100 percent of the opportunity to grow America's markets around the world for our companies like Coca-Cola and others.

And I have seen the great difference foreign investment can make, and I think USAID does an unbelievably phenomenal job for our country and for the world. I am proud to be a big supporter of what you do, Mr. Postel.

But in reference to what Senator Kaine said about our interns coming to see examples of marvelous things that can happen, I want to tell you a brief story about Coca-Cola and what they are doing in Africa. I took Senator Coons with me. He has left, but he knows this story.

But we went to a project in Ghana, actually went to a Millennium Challenge Corporation project in Ghana. There was a giant 1-acre large refrigeration system to take the shelf life of a pineapple from 7 days to 7 weeks, which opened a new marketplace for the pineapples grown in Ghana.

But we also learned that 80 percent of Africa does not have potable water and no infrastructure to get potable water. The Coca-Cola Company started a program.

And you correct me if I am wrong, Mr. Goltzman.

But what they do at Coca-Cola is they go find a village that needs water and does not have a source of clean water. This particular village we went to, they had a stream running through it. It was the nastiest thing I have ever seen. Coke took the water out of that stream, put it through an ultraviolet ray system, including sand filtration, to purify that water in a self-contained system. The residents in the village would pay 7 cents a day for 5 gallons of water.

So Coca-Cola created clean water, 7 cents a day cost, and the village all of a sudden that nothing had water and enterprise growing, and they became consumers of products that we were shipping over there. People ask, why the 7 cents? Why don't you just give them the water? Well, 7 cents was the sustainability cost so they could maintain that plant for years to come.

I have been back to that site since you saw the picture, Mr. Goltzman, when I went there 5 years ago. That plant is still working and still operating. It is maintained by the revenue of 7 cents a day paid by the villagers who come and get their 5 gallons of the water.

That is what you can do with American ingenuity and the investment in the private sector to make a demonstration project that

does not give somebody something but it is kind of like the parable of the fish. If you give a man a fish, he can eat for a day. If you teach him to fish, he can eat for a lifetime.

That is what Coca-Cola is doing all over North Africa when it comes to water. It is really great tribute to you and your company and what you are doing. I have been proud to have been there and drank that water and, as I told you, lived to tell about it. [Laughter.]

Senator ISAKSON. When I saw the water going in that sand system, I said I ain't drinking that. Then they had a newspaper guy and a USAID guy with a camera there, and I said, well, I better drink it or Coca-Cola and Muhtar Kent will find out about it. [Laughter.]

Senator ISAKSON. I drank the water. Senator Coons and I did. The only thing about the water was it was a little bit flat but it was safe and as good as it could be. We enjoyed it that day, and we appreciate the investment that you all are making very much.

As far as USAID is concerned, for America's business and America's place in the world, our job is to be a catalyst for countries that do not have what we have, to be able to build the infrastructure to get what we have, not because we give it to them, but because we show them a way, because we make a down payment on an investment in those countries in return for getting them to correct some of their ways.

The Millennium Challenge Corporation has done one great thing in Africa aside from putting in a lot of infrastructure. It is ending corruption in Swaziland. It is ending corruption in Benin. It is ending corruption in Ghana. One of the predicates of getting a Millennium Challenge contract is to get out of the business of corruption, which is the biggest single problem Africa has.

So not only is it good to make investments and down payments, but it is also good for that money to be a catalyst for people to do the right thing.

So I want to compliment you on what you are doing, Mr. Postel and Mr. Runde and Mr. Goltzman.

Tell Muhtar I bragged about Coca-Cola when you go back. I do not have any questions, but any comments you want to make are welcome.

Mr. GOLTZMAN. I just wanted to thank you for that.

We are building these basically mini water treatment plants in communities around the continent. They sell the water because, as you say, it is meant to be able to cover the maintenance and operation costs. Some of those centers are selling more than 1 million liters a month, so it is absolutely going to the greater sustainability of the village.

And you get great stories coming out that the local hairdresser says she now goes and buys the water from the water treatment plant because her customers are actually willing to pay more to have their hair washed with clean water.

Thank you, sir.

Mr. POSTEL. Senator, thank you very much for your kind comments and your tremendous support including cosponsoring the Global Food Security Act and the Global Development Lab. We really appreciate your support as well as other members.

A couple of things. Your description of the Coca-Cola projects completely aligns with our views. That is why we have done 43 projects with the Coca-Cola Company.

You heard the tremendous description of their capabilities. This is what we are trying to tap into, all this expertise, to really get even bigger results because, notwithstanding the fact that we are the biggest single bilateral donor, there are still literally millions of people that are not being helped whose problems we have to help them solve for themselves. As you said, teach them how to fish.

So these partnerships are very key to that, whether it is in water where they are the single biggest water user on the planet, as you know, to energy where we have 600 million Africans who do not have power but we have a lot of power companies who could do it if we remove the obstacles.

So there is a lot to build on and do more of.

Thank you.

Mr. RUNDE. Thank you very much, Senator.

Nineteen of 20 of our biggest trading partners were once aid recipients, so I agree it is enlightened self-interest.

Foreign assistance is part of ensuring America's place in the world. I agree with you, Senator. I think one of the things that we have to be aware of though, is, in these developing countries, what they often want is our innovation and our technology. That is not necessarily in the U.S. Government. That is in fine American companies.

So by partnering, we can bring what they really want, which is this innovation and technology.

The other thing I think we have to remember is as these countries have gotten wealthier, I think we have to be aware that they can take their business in some ways down the street to China. So I think we have to be aware that we have, in essence, an emerged or emerging geostrategic soft power competitor. I know that is a lot of words but I think you guys know what I mean. They can take their business to the Chinese.

So what we have that other folks do not have are our innovation and our technology. That is what they want. Any country I go to in the world, whether they are our friend or not necessarily our friend, they covet that. They covet our innovation and our technology. That is housed in American businesses.

Senator PERDUE. Thank you.

Senator Kaine?

Senator KAINE. Thank you, Mr. Chairman.

And thanks to the witnesses. I want to ask you about a part of the world—Mr. Runde, you talked about the Northern Triangle—because I want to use this as kind of an example. Put on your creativity hat with respect to PPP possibilities. I am going to ask the question for the record, too, so if you think about it after and you have more thoughts.

The President asked for a billion-dollar investment in the Northern Triangle last year and Congress, thanks really to the Senate because we put 750 in but the House did not, but we conferenced it at 750, so we are making an investment in three countries of the Northern Triangle.

The President has asked that that be repeated. We are seeing in these neighboring countries that we are very closely connected to—a lot of folks from these areas, their families live here. We are seeing the unaccompanied minor outflow to our country. We are seeing levels of violence driven to a significant degree by the U.S. demand for illegal drugs that puts cash into these economies and kind of corrupts them. We are seeing rule of law problems. We are seeing economic opportunity challenges. So we are seeing a lot of different challenges.

These are three nations that combined have a population of about 30 million. It is about the size of Texas, a little bit bigger than the size of Texas, from a population standpoint.

If we are on a path where we might, over the course of multiple years, make an investment of this kind, we want the metrics to be right. Obviously, we would like to expand the power of the investment by not just having it be the 750, but having an appropriate coordination with NGO partners, with government spending in those three nations, with private investment, with private individuals in those nations who often decide to invest their money elsewhere because the security situation at home is not so great, and bringing those monies back and investing them at home.

So from a kind of public-private partnership standpoint, I would love your advice on how we could take an investment of the size that we are making and leverage it and expand it through using this technique.

I would love each of you to address it.

Mr. Runde, since you mentioned the Northern Triangle, why don't we start with you?

Mr. RUNDE. Thank you. I know it is a region, Senator, close to your heart. I know you did public service there.

I think we have an interconnected future with the Northern Triangle, and I think it was very important that the U.S. Congress, including the U.S. Senate, put forward this additional money because I think, ultimately, this is not going to be solved just on our border. It cannot be just about how we respond when they show up at our border. It has to be about dealing with the root causes.

But I think we have to have an honest conversation about the fact that if we want to fix these problems, because we have had a long relationship with these countries—and sometimes we have had an ADD relationship. We have only responded when there has been a crisis.

If we are going to do this, we have to think of this in the paradigm of like a Plan Colombia, and I think that has been a good shorthand in Washington to think of it as a Plan Colombia for the Northern Triangle.

I also visited Colombia, and we are going to be releasing a report in October. I am hoping you, Senator, will come and be a keynote speaker at it, because I know it is important to you, so I am going to come back to your staff about that.

But I think we need to make a long-term commitment. This is a 15-year project. If you look at what happened in Colombia, that was a 15-year project. We are going to need a lot of political will in those three countries. We do not have, for the record, I do not

believe we have an Alvaro Uribe or a President Santos in any of those three countries.

There are some capable governments. There are some new governments. They are trying. There is very active civil society, as you know, that have made changes in those three countries. Each of the countries are slightly different. It is hard to get to have a Plan Colombia in three different countries instead of one.

I do think you have identified the problems. If you ask the children when they leave, they say my biggest concern, at least in the countries of Honduras and El Salvador, is security. In the case of Guatemala, it is jobs. So I think we need to deal with jobs, and we need to deal with security.

I do think there are several things we have to be thinking about. In parts of these countries, the state has never existed, as you well know, Senator. I think there are parts of the Western Highlands of Guatemala that have never seen—you cannot get a high school degree there. You do not have a police station. You do not have a hospital. You do not have roads.

So I do think one of the things we are going to put in our report is we need to centralize among the House and the Senate and the executive branch a set of metrics that we can all agree on. I think it is five or six metrics.

Certainly, the first one is unaccompanied minors. How are we doing? Are people showing up at our border?

I think the second is, what are we doing about a murder rate? Can we get those murder rates down? It is some of the most dangerous places in the world, as you know, Senator, more dangerous than some combat zones that we can all think of.

I think the other thing, though, it is very important to have an increased economic growth rate, formal economic growth—formal economic growth—because we need people to be absorbed in the local economy and work in jobs in their own countries.

Fourth, I think part of the social contract with companies is about tax rates. These are some of the lowest tax collections in the world. And it is scandalous, 8 percent, I think, in Guatemala last year. It is shameful. How do you pay for police? How do you pay for schools with those kinds of numbers?

But I think we also have to have some humility. Let me go back to we are not the largest wallet in the room, even in Central America in these three countries. I have been looking at the numbers. If you look at the GNP of these three countries, what is the percent of GNP of the $750 million? I do not know, 0.1 percent, 0.2 percent, 0.3 percent GNP.

We cannot operate as if we are a couple of hairs on the tail of the dog wagging the whole dog. So I think we need to use that money to create a compact with governments, with the private sector, with civil society. So I think we have to think about this and say we are going to make a commitment to you, but, in return, you are going to have to do some things.

One of the things we should do is use that money to generate political will. I know Congress has tried to put some conditions on it. I know you are going to be waiting to hear from the administration about what those metrics look like. But I think we are going to have to have some humility. We are going to have to take a long

view. But I do think we are going to have to create almost some sort of a compact with each of these three societies.

Thank you.

Mr. POSTEL. Thank you for your question, Senator. A couple of quick comments.

We had the Partnership for Growth with El Salvador, and we started using this technique that MCC and USAID use, constraints to growth analysis. And what it showed was that there was the possibility of growth, but the biggest single inhibiting factor won't surprise you but it was violence. Even in the private sector, it was in the way.

In fact, later, as we came to work on this, and we created a partnership that had some of the richest and most entrepreneurial people in the country working alongside both governments, and you would talk to them at dinner after the meetings were done and you would ask them what they are doing with their investments and you find out that they were investing in Colombia or in Virginia or in California and where they were not investing is in that area. Those funds are greater than these funds that we are thinking about.

So what we see is that there is a multistep process, and we build metrics. I am happy to come to talk offline about where we got and where we did not get on that as a model.

But we created partnerships. We have one, for instance, that involves Chevron, Hanes, Starbucks, and local NGOs to build alternative community centers and locations to work with youth to try to keep them out of the gangs.

So we can use some of the money to build partnerships with others to try to deal with some of the insecurity and the gangs. As that comes down, then we can morph from that into working on pure economic growth things such as Dan said, but leveraging their own money and just removing some of the impediments, because there is a lot of money in the system, if we can deal with corruption, which is another whole area as well as the insecurity.

Thank you.

Senator KAINE. Mr. Goltzman?

Mr. GOLTZMAN. Thank you, Senator. The only three short things I would add to that is you want to set, if you are going to leverage the private sector in doing some of this work, you want to set some ambitious targets. And you have these metrics that you are going to come up with for that, so that is a good first step.

If you want the private sector to come in, then the U.S. Government also has to have predictable funding so that you can actually know that this is a multiyear commitment that a company is making and that your partner, the U.S. Government, will also be there over multi-years.

Then I think we need to make sure that we invest in sufficient human resources to do the alignment upfront. This is always the hardest part of any partnership, making sure that all the parties that you bring in are truly aligned on the goal that we are trying to achieve and the mechanism that we are going to use to achieve that goal.

That takes a lot of time, and sometimes, as my colleague mentioned, you realize you are not aligned, so it cannot proceed. But

that investment in that time, and the people to really make that work, is what allows us to achieve actually the results that I talked about earlier.

Thank you.

Senator PERDUE. Well, we are at about that hour where they are about to call the vote, but I do have one other detail question, I think for the record.

In the testimony you had, I think the ratio is about 2.5-to-1 leverage right now between private investment and public. How many U.S. corporations, let's say Fortune 500, what would be a percentage of those corporations participating in these projects today? Do you have any idea? Does anyone have a number on that?

Mr. POSTEL. Senator, I do not have the Fortune 500 number, although we can get that. We have more than 3,500 total partners who work on the Global Development Alliance, which Dan helped pioneer.

In regard to the guarantees, we have more than 350 financial institutions with whom we are working, both U.S. as well as local financial institutions. Then if you go writ large on all forms of partnerships, the numbers are in the thousands. Feed the Future alone counts, using slightly different accounting, about 4,000 different partners.

Senator PERDUE. How do you coordinate with IMF and World Bank investments in this area? Do they partner with you at all?

Mr. POSTEL. We do partner with them in a lot of different spheres. We have an MOU with them, for instance, in Power Africa, where we are coordinating carefully.

Sometimes there are deals that might involve several different parties doing different things. For instance, one of the first big Power Africa deals is a Lake Turkana wind project, 310 megawatts in Kenya. OPIC has a big piece of that.

But then there is another piece of the project that was done by the African Development Bank and a Norwegian development agency. Sometimes the deals are so big, we need different people sticking to their competencies. But you put the pieces together to get the whole.

Senator PERDUE. Understood. Just one last question. I am interested in the ratios here.

You are getting 4-to-1 or better ratios of leverage off private partnerships with regard to health and education projects. But some of the others, and I was surprised at this, water and sanitation and energy are lower, less than 2.

That is counterintuitive to me. I wonder if there is a structural issue there. Lee Kuan Yew talked about the four drivers of economic growth in the developing world between cheap power, potable water, educated work force, and great infrastructure. Well, these are two of the great fundamentals here, water and power, and I am really kind of surprised.

Is that just an anomaly or is there something structural there?

Mr. POSTEL. Thank you for your question, Senator. The energy strikes me as odd as well. It is certainly at odds with what we are seeing on Power Africa.

Senator PERDUE. Power Africa, yes, 7-to-1.

Mr. POSTEL. We can dive deeper into that. It might be apples and oranges.

The other sectors do not surprise me, Senator. Actually, not all sectors are going to be equally ripe for partnership with the private sector. I mean, obviously, certain countries are not, fragile states are not.

Democracy rights and governance type work is less ripe for that kind of partnership. Water, with the exception of Coca-Cola and a few others, as a total volume—for instance, sanitation, we do not see as many public-private partnerships, because it does not align with the core business interests.

So there are definitely significant differences across sectors, both leverage, but also just the total volume of engagement.

The number one ask in the private sector, which we have trouble meeting because of all the stovepipes of funding, is work force development, for instance. That is in their sweet spot, whereas one of our big efforts is just to get kids to learn how to read. But for a company, that is 20 years from when you are working with them to that person becomes a member of the work force. It just does not have the right return for them to get engaged.

So there are definitely discrepancies.

Senator PERDUE. Understood.

Unless you have anything else, I really appreciate this. We have learned a lot today. I think we have exposed quite a bit of the successes that you have had and some of the challenges.

But I want to thank the witnesses. Thank you for your testimony and for all your work. It is a great endeavor.

The record will remain open until Friday close of business for anybody up here who wishes to submit a question. I would love for you to respond to that.

And with that, we stand adjourned.

[Whereupon, at 3:36 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

ERIC POSTEL'S RESPONSE TO QUESTIONS SUBMITTED BY SENATOR PERDUE

Question 1. I'd like to follow up on our conversation just before the hearing where you mentioned you would be able to give us an estimate of the total portion of public-private partnerships worldwide that are attributable to the U.S. Would you mind sharing that number with me?

Answer. USAID partners with many organizations[1]—including multi-national and U.S. companies, both of which are critical to the success of our programming. In FY 2015, for example, USAID had partnerships with more than 993 partners, 517 of which are private businesses. Approximately 40 percent of these private businesses were headquartered or with some kind of presence in the United States, such as operations, staff, or sales. These companies have committed $3.5 billion to public-

[1] USAID requests and collects data on public-private partnerships from across the Agency's operating units and Missions. However, the Agency-wide PPP Database is not comprehensive due to the decentralized nature of the Agency. In addition, the Lab rolled up PPPs under the same project when there were a large number of PPP activities. Often, these PPPs were small in terms of lifetime value. Additionally, the PPPs reported into the PPP database are a representative subset of the larger PPPs for specific Bureaus with a large number of PPPs. These decisions were made to reduce the reporting burden on operating units (the PPP data call requires at least 18 points—up to 84 points—of information on each partnership).

private partnerships with USAID over the life of their projects, approximately 55 percent of all non-USG commitments to partnerships in that year.

It is worth noting that local partners are also important in making sure our work is effective and sustainable—their understanding of local priorities and country contexts, and promoting local ownership cannot be underestimated. While many of USAID's high-profile partnerships are with multinational companies, USAID also partners with national and local businesses in ways that have resulted in unique and significant value around the world. In FY 15 alone, 313 local private businesses committed to contributing more than $1.7 billion over the life of their projects.

In addition to the above totals, Power Africa, a U.S.-led public-private initiative that comprises 12 U.S. government agencies and a diverse group of foreign governments, international organizations, civil society organizations, and private companies, is partnering with more than 100 private sector entities to accelerate power transactions in sub-Saharan Africa. The United States' initial $7 billion dollar commitment to Power Africa has mobilized more than $31 billion in commitments from its private sector partners. Approximately 40 percent of the $31 billion in commitments are from companies with headquarters in the United States.

Question 2. I was also curious about the percentage of Fortune 500 companies that participate in public-private partnerships with the U.S. government. Would you be able to supply any data to answer this question?

Answer. USAID engages with a range of private businesses as resource partners, including Fortune 500 companies. In FY 15, for example, USAID was partnering with at least 42 Fortune 500 companies—more than 8 percent of the Fortune 500—which included more than five partnerships each with Microsoft, Intel, Cisco, Coca-Cola, and Johnson & Johnson. These companies have committed to contributing more than $807 million to public-private partnerships with USAID. These engagements have included working with USAID through both companies' philanthropic foundations as well as their corporate arms. When looking more broadly at all types of private sector collaboration, including those that are not formally public private partnerships,[2] USAID engaged with at least 54 of the Fortune 500 companies (10.8 percent) in FY 15 to achieve development objectives.

And while multinational corporations have been a key partner in our work, it is important to recognize that local partners also play a particularly important role in making USAID's work more effective and sustainable. While many of USAID's high-profile partnerships are with multinational companies, USAID has numerous partnerships with national and local businesses that have provided unique and significant value around the world. USAID's "Local Systems: A Framework for Supporting Sustained Development" emphasizes the importance of local solutions to achieving and sustaining development outcomes. Local private sector actors provide economic growth and opportunity in their countries, and serve a critical role in understanding local priorities, local context and promoting local ownership.

Question 3. During our discussion about how public-private partnerships could serve as a model for reconstruction in Syria, you mentioned that some "simple fixes" could go a long way in terms of increasing flexibility for USAID and corporations as they implement the partnership. Could you elaborate on what kind of "simple fixes" you feel would be helpful?

Answer. Because USAID assistance in Syria is administered in an environment subject to various restrictions, including sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control, it is not one of the countries where USAID employs public private partnerships and there are no flexibilities USAID currently seeks in relation to partnerships related to Syria reconstruction efforts.

However, USAID initiatives in country are consciously laying the groundwork for local councils to be the future "public" in public private partnerships. USAID's assistance within opposition areas of Syria is intended to maintain and augment a basic quality of life and lay a foundation for post-conflict economic and political development.

In just one example, USAID's Syria Essential Services (SES) restores essential services through the provision of technical and material assistance, including engi-

[2] A public-private partnership, as defined by USAID, is a collaborative working relationship with external, non-governmental partners in which the goals, structure, and governance, as well as roles and responsibilities, are mutually determined and decision-making is shared. Public-private partnerships are rooted in co-creation, co-design, collaborative implementation and resource mobilization with our partners, aimed at achieving jointly defined, mutually beneficial objectives. Private sector organizations include private businesses, corporate philanthropies, industry organizations, private philanthropies, investors, social businesses and cooperatives.

neering expertise and small cash grants to communities. Projects focus mainly on electricity, water for drinking and irrigation, rehabilitation of schools and hospitals, and municipal waste. Solar energy was introduced as an efficient alternative to prohibitively expensive diesel fuel. SES is also making investments in agriculture to sustain livelihoods and contribute to food security, possibly reducing or alleviating the need for humanitarian assistance.

SES has worked closely with local councils to develop their administrative, financial, and community outreach capacities to improve and sustain the delivery of services. In many communities, sustaining essential services means relying on the diaspora for contributions to offset operating cost such as fuel or spare parts. As we have seen in other post crisis countries, the diaspora will be the first to make investments and help rebuild the country. Cultivating these connections is extremely important. Over time this may extend to regional players who will invest in key sectors. Several Jordanian firms are suppliers of materials like pipes and solar panels and are poised to be investors in future Syrian industries. However, given the scale of destruction and complex security concerns we have to be realistic about who is going to come, on what timeline, and with what intentions.

Question 4. In your (written) testimony you state that USAID has learned to partner with companies in a variety of different ways, and your approach to public-private partnerships has evolved over time.

- ♦ What are some of the challenges involved with establishing these public-private partnerships?

Answer. We have made a great deal of progress in the partnerships field, but there is more to be done to tap the full potential of our partnerships and make them more effective. For example, one of the advantages of private sector partnerships in development is that they offer greater potential for long-term sustainability beyond USAID assistance and greater potential for scale. While this is indeed true in some partnerships, many others have struggled to scale beyond a pilot or sustain impact after an initial period of commitment. We are investing in research to learn why that is the case so we can better integrate the conditions for scale and sustainability into the design of partnerships from the very beginning.

Multi-stakeholder alliances, such as the Feed the Future New Alliance or Power Africa, can be the most complex and labor-intensive to design, manage, and implement. We plan to continue to develop ways to increase the impact and reduce the transaction costs of multi-stakeholder models-for instance, by promoting governance models that encourage streamlined decision making and operating and funding models that enable multiple capabilities and funding sources to be combined effectively. In addition to interagency partnerships working groups and events, like Global Partnerships Week (co-hosted with the State Department), to exchange knowledge, lessons learned and best practices with our counterparts across the USG, the Global Development Lab—in conjunction with other parts of the Agency—has engaged in a number of studies aimed at exploring the nature of partnership models, understanding the role of the private sector in sustaining activities or results, and studying what has and has not worked in these types of public-private engagements.

Additionally, much like all of our development activities, we need to improve monitoring and evaluation of partnerships. We need better data on partnerships, to determine which partnership models have delivered the most effective development impact and to help us understand how to replicate that success.

Finally, because companies are often not structured in the same ways as USAID—with different funding timeframes, transaction mechanisms and internal processes—it can be challenging to align from a process standpoint. We are constantly working to innovate our processes to obligate government dollars more quickly and with more flexibility, with the goal of working more easily across sectors and geographies where business interests and development objectives align.

- ♦ Can you elaborate on how USAID's approach to public-private partnerships has evolved over time, and what are the lessons learned on how to make these partnerships more successful?

Answer. USAID has a long history of working with and through the private sector, and we partner with a wide range of companies and organizations. We have, since the early years of USAID programming, supported private sector development and competitiveness, through programs designed to strengthen local business enabling environments and create the conditions for economic growth.

In the 1990s, we began to more proactively engage the private sector as business partners. We have been moving beyond traditional relationship structures characterized by donor-recipient or client-vendor engagements in which organizations were implementing projects conceived, designed and funded by USAID. One of the two

main ways we started doing this has been through so-called "Global Development Alliances" (GDAs). Through GDAs, we partner in industries and geographic areas with businesses whose interests align with our development objectives. These partnerships are co-designed, co-funded and co-managed alongside partners, so that risks and rewards of the work are shared.

The second main way we started working with the private sector as business partners was by working with local banks and international investors through our Development Credit Authority (DCA). DCA uses partial credit guarantees to share risks and unlock investment into sectors that are important for development. Since 1999, DCA has mobilized more than $3.9 billion in credit through 474 loan guarantees with more than 340 financial institutions across 74 countries.

And now, as we build on our successes, navigate budget constraints, and participate in a changing development landscape, partnerships and private sector engagement remain steadfastly ingrained as a critical component of our work across sectors and geographies and integrated into the fabric of the Agency and how we do business. We incorporate this approach into key Presidential initiatives and multi-stakeholder alliances, like Power Africa and Feed the Future, with the goal of mobilizing coalitions of private sector partners to work toward large scale progress and address challenges at the systems level and build onto these commitments so that the work can continue long after USAID funding. Also, we recently established a new Office of Private Capital and Microenterprise (PCM) focused on mobilizing private capital to support USAID's development objectives by working with a powerful network of investors to catalyze finance for development and increase the scale, impact, and sustainability of our programs.

Additionally, we have implemented new practices and developed new tools that allow us to foster more strategic engagements. For example, the USAID Forward—announced in 2010—reform agenda aims to embed partnerships with both local and global actors more deeply into how we conduct business. We have since established a network of relationship managers to improve how we engage with the private sector. We also provide training and technical assistance on, and a range of tools to support, public-private partnerships and private sector engagement across the Agency. These include multi-sector alliance assessment tools that help operating units prioritize partnership opportunities, as well as landscape analyses and sector guides to partnering within specific industries.

♦ Are there any things we can do here in Congress to help you in this endeavor or to streamline the process?

Answer. We are grateful for the support that Congress has afforded our work with the private sector—it has been, and will continue to be, essential to improving how we conduct partnerships.

Members of Congress are uniquely positioned to continue highlighting public-private partnerships that deliver results, highlight the benefits, best practices and lessons learned. We would appreciate working with you and your colleagues to build greater flexibility in the way our funding can enable USAID to more easily work across sectors and geographies, where business interests and development objectives align. At the moment, current USG funding practices don't align well with the timeframes and opportunities of business.

Congress can also be supportive of hiring mechanisms that allow USAID to bring in staff with the requisite skills to communicate with the private sector on the benefits of partnering, and the skills to then create and implement both individual partnership activities, and broader, more overarching relationships with companies. For example, the Global Development Lab Act would help USAID streamline the process for bringing in short-term, specialized experts, reducing overhead costs.

Lastly, the Development Credit Authority (DCA) needs more operating expense funding to keep pace with its growing portfolio: its overall portfolio has doubled over the past 5 years and yet, staffing head counts have only increased by 20 percent. The office is currently funded at $8.1 million per year. The FY17 request calls for an increase to $10 million, which would allow DCA to maintain its strong portfolio quality, while accommodating continued growth. Without additional funds, DCA will need to begin limiting the number of transactions it processes exactly at a time when demand by USAID missions for the use of the guarantee is an historic high, and rising.

Question 5. What benefits does State and USAID gain from these public-private partnerships? What can the private sector do that USAID and State cannot?

Answer. USAID firmly believes that great ideas come from anywhere; development challenges are complex and cross-sectoral and require more resources and expertise than any one organization alone can offer. We recognize that we need to en-

list the resources and expertise of a range of partners in order to meet our development objectives, to ensure better business and development outcomes.

The private sector is critical to ensuring we improve the reach, effectiveness and efficiency, and sustainability of our programming. Businesses act as employers, buyers, suppliers, and investors—increasing jobs and income; purchasing locally produced materials, from raw materials and agricultural outputs to manufactured and processed goods; increasing access to products, services and technology for many of our beneficiaries; and improving private investment in mutually beneficial public goods and local markets.

Public-private partnerships allow USAID to leverage companies' global supply chains, expertise, technologies, brands, customer bases and resources, ensuring that we can expand our reach and get aid to the areas that need it most.

We also share risk such as through Development Credit Authority (DCA) guarantees, which catalyze lending from local banks and other financial institutions and incentivize private investment that would otherwise not occur. This allows us to stretch the impact of our funding and ensure sustainability of activities long after our programming ends.

We mobilize private sector investment commitments and engage the voice of business for policy reforms as part of multi-stakeholder initiatives, such as Power Africa, in which we link private sector investment, industry tools, solutions and expertise to advance energy sector transactions, host country policy reforms and improve the investment, policy and enabling environments for business and government.

Question 6. While the benefits of public-private partnerships is indisputable with regard to the technology, networks, and skills leveraged by the private sector, could you enumerate the cost savings achieved by public-private partnerships?

Answer. USAID's engagements with the private sector are essential to improving the reach, effectiveness, efficiency, and sustainability of our development work.

Therefore, USAID measures the funding leveraged or mobilized and the impact achieved through a public-private partnership. This number tells us what additional funding, assets, skills, and unique resources USAID's public-private partnerships are bringing to development—enabling USAID to achieve results that would not have been possible otherwise.

From 2001 through the end of FY15, USAID has been involved in more than 1,650 public-private partnerships[3] worldwide in which we are jointly committing assets and resources to a given activity, with USAID contributing $5.3 billion and non-USG resource partners (including both private sector and foreign governments) contributing $16.1 billion to these public-private partnerships over the life of the partnership. When looking at all of these public-private partnerships together, USAID is leveraging about $3 from non-USG partners for every $1 of U.S. taxpayer money.

As such, through partnering with private actors, U.S. taxpayers obtained results at only one-third of the costs of the U.S. government solely funding such initiatives.

Similarly, through the Development Credit Authority, USAID has leveraged $185 million of taxpayer funds to mobilize more than $3.9 billion in credit. This translates to a leverage ratio of $1:$21.

- ♦ Do public-private partnerships take more staff time to negotiate or adequately monitor public-private partnerships compared to more traditional forms of aid implementation? If so, are these costs reflected in the leverage ratios?

Answer. Building partnerships requires upfront work to identify areas of shared interest with private sector partners and to "co-create" solutions, which leverage the capabilities of both partners. This requires a different approach, mindset, and set of skills than other kinds of programming. It does not require more staff time in all cases, but it does require different skills, and it can in some cases be more labor-intensive when the partnership is complex or the partners involved are new to working with USAID.

In terms of timescales, typical partnerships take between 6–12 months to develop, which is in line with traditional procurement processes. This duration varies based on a variety of factors, including the scope of work, USAID and company timelines, and due diligence processes.

Because all procurements by USAID are governed by USAID procurement regulations, all activities must meet similar requirements for monitoring and evaluation, including partnerships with a private sector partner.

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[3] The Agency-wide PPP Database is not comprehensive of all ways in which USAID works with the private sector. The database does not include all USAID and interagency engagements and initiatives including Power Africa, the Development Credit Authority, and Feed the Future and other Agency programs due to different reporting requirements.

Our leverage ratios do not account for USG staff time and other resources utilized in the negotiation process. They are instead comprised of resources contributed solely to the implementation of the public-private partnership to achieve development results or establishment of partnership structures, such as a backbone organization for multi-stakeholder alliances. The amount of resources leveraged from non-USG partners may account for staff time and other non-monetary contributions to the implementation of public-private partnerships but not the partnership negotiation. But as the costs of staff time are typically small relative to the size of the partnerships, we are confident that were USG staff time included, leverage ratios would remain very robust.

Question 7. One criticism I've heard of public-private partnerships is that they may pose challenges to Congressional control and oversight of development assistance activities.

♦ How can we ensure that the proper lines of oversight are maintained?

Answer. The U.S. Agency for International Development remains committed to transparency, recognizing that accurate, timely information helps us manage and monitor aid resources more effectively. USAID employs comprehensive processes, subject to Congressional oversight, to ensure that USAID-funded activities are effective.

While it is true that USAID's award provisions do not apply to our private sector partner's use of private funding, the USAID-funded development activities in a partnership are fully subject to USAID provisions that apply restrictions, reporting, and oversight on the use of USAID funds, as well as remedies for the misuse of such funds. All activities that are funded with government dollars go through our standard review and notification processes, regardless of whether there is a private sector resource partner.

Additionally, USAID selects partners whose objectives align with USAID development objectives, and conducts rigorous due diligence on prospective private sector partners, which we use to identify and preclude organizations whose activities or operations may engage in waste, fraud, or abuse—for both USAID funds and private funds. Effective due diligence reveals whether a prospective partner has a proven and recognized commitment to principled business practices, and is designed to give USAID information to judge whether to rely on a private sector partner's non-binding commitment to provide resource support for an activity. For example, for Global Development Alliances (GDA), USAID undertakes a due diligence process to evaluate the reputational risks and benefits of working with a potential private sector partner, focusing on five essential areas of investigation: corporate image, social responsibility, environmental accountability, financial soundness, and policy compatibility. Furthermore, these alliances are co-designed, co-funded, and co-managed alongside partners so both the risks and rewards of the work are shared.

♦ How are the interests of the State Department and USAID safeguarded when partnering with other entities?

Answer. When considering engagement with a prospective partner, USAID is driven by the strategic diplomatic, development and security priorities of the U.S. government. We aim to work with organizations at the intersection of business interests and our development objectives, engaging in early conversations with prospective partners to ensure that we pursue engagements that will help us meet our development objectives most efficiently and effectively while also protecting USG interests.

All organizations that receive funding from USAID must comply with USAID and USG requirements, regardless of whether the activity involves a private sector partner.

As mentioned in part (a), effective due diligence reveals whether a prospective partner has a proven and recognized commitment to principled business practices, and should give USAID information to judge whether to rely on a private sector partner's non-binding commitment to provide resource support for an activity. The process typically begins as soon as negotiations progress beyond the introductory stage and are ongoing for as long as the relationship exists. We also use a memorandum of understanding (MOU) to formalize our partnerships, ensure that all parties are in agreement on roles, activities and decision-making processes, decreasing the risk of misunderstandings and future conflicts.

And different types of engagement require further relevant considerations when conducting due diligence. As part of its credit guarantee authority, for example, USAID's Development Credit Authority conducts extensive due diligence on every partner financial institution before entering into a guarantee agreement. It reviews potential partners' financial records, portfolio quality, internal controls, manage-

ment capacity and market reputation. This due diligence is then presented to an independent Credit Review Board which makes a final decision on whether the Agency will enter into any new DCA-supported partnership.

♦ How are broader U.S. national security objectives upheld in USAID's work with private partners?

Answer. USAID only undertakes partnerships if they align with our priorities and strategies. We partner with private organizations on multiple issues, including issues that have national security implications for the United States. These areas include crime and violence prevention, infrastructure and energy, job creation and workforce skills development, pandemic health threats, climate change, and natural resources management. These issues, if left unaddressed, can de-stabilize communities and weaken other nations' ability to commit to a rules-based international order, thus impacting U.S. national security.

Engaging the local private sector has increasingly become an important factor to ensuring community buy-in and sustainability of these kinds of development projects in places like Central America, whose geographic proximity and social and cultural ties impact U.S. national security.

For example, one-third of USAID's public-private partnerships in Central America (in FY15) specifically focus on crime and violence prevention programming to address one of the underlying causes of migration to the United States, insecurity. These public-private partnerships are active in Northern Triangle countries, Nicaragua, as well as Mexico. For example, six of USAID's public-private partnerships in FY15 were specifically focused on crime and violence prevention. Our work is focused on at-risk youth and municipalities in-country to provide skills development, recreation and job opportunities, so that fewer people will turn to violence and crime, and fewer refugees will exist, and governments can maintain the rule of law and the provision of public services to prevent the destabilization of regional security.

USAID engages companies such as Salvadoran conglomerate Grupo Agrisal as well as multinational companies like PriceSmart, Tigo, Claro, Cisco and Microsoft to provide educational, training, and economic opportunities for at-risk youth across the region. USAID supports more than 200 outreach centers in some of the toughest neighborhoods in the region. In El Salvador alone, 123 outreach centers reach 25,000 at-risk children and youth annually. Some of our most successful partnerships with the private sector have focused on this crime and violence prevention work targeted at the community level in Central America.

♦ Do public-private partnership opportunities ever dictate decisions of what types of projects get funded? Do public-private partnerships ever lead to a distortion of our development priorities?

Answer. At USAID, partnership opportunities do not distort our priorities; rather, they are only undertaken if they address one or more development priorities and needs, and are in line with U.S. Government strategies in given countries or sectors, with an eye toward how these engagements enable us to more efficiently and effectively achieve those priorities. We work collectively and cohesively across the Agency and inter-agency on initiatives like Power Africa or Feed the Future, and our projects and programs are driven by our Mission priorities.

We are working to end extreme poverty and enable resilient, democratic societies to realize their potential, and we know that we can only do that by engaging strategically with the private sector, where there is strong alignment between our development objectives and business interests. Many obstacles businesses face are also symptoms of the social and economic development challenges we are working to address in developing countries—from customer outreach and supply chain stability to community investment and workforce development.

USAID Missions use the Country Development Cooperation Strategy (CDCS) process, a country-specific planning tool, to make strategic choices and encourage innovative approaches to achieving development results. These five-year country strategies enable us to stay focused on each Mission's priorities and set the foundation for project design, planning, and resource allocation while also making clear to the public and potential partners where opportunities for engagement exist. The CDCS development process requires active engagement with stakeholders, which includes the private sector when appropriate.

The project design process defines how USAID will operationalize the CDCS. In designing projects to achieve a specific development result, USAID considers a range of implementation approaches, including PPPs, when appropriate. PPPs are often the most efficient way to address a specific development challenge in the context of the project's objective. USAID seeks to ensure that public-private partnerships

are aligned to advancing the development objectives established in our Missions' CDCSs and as such, ensure these partnerships support, rather than distort, the core development priorities that USG has established with our host country government partners.

Question 8. Between FY2000–FY2014, 89 percent of bilateral public-private partnership funds have gone to USAID-led partnerships, and roughly 10 percent have gone to State Department-led partnerships.

♦ Can you comment on what accounts for this disparity?

Answer. senior leadership and working staff levels—to create strategic goals and objectives, and coordinate the programs and activities designed to achieve them. USAID is sometimes considered more "operational" than State, with large-scale development programs that provide opportunities for on-the-ground partnerships. We make investments in conjunction with the Department of State, enabling us to meet our development objectives and advance U.S. security and prosperity abroad.

With regard to the State Department, foreign assistance funding for public-private partnerships does not account for the full scope of State Department-led partnerships. This figure also may not account for public-private partnerships for educational and cultural exchanges or in the realm of Public Diplomacy, which are supported with ECE and PD funding, respectively. The Bureau of Educational and Cultural Affairs (ECE funding) uses public-private partnerships to expand the scale and impact of exchange programs and public affairs sections at U.S. Missions routinely use public-private partnerships, albeit often on a smaller scale, to expand the reach and impact of Public Diplomacy activities (PD funding). Further, this figure also may not account for State Department-led partnerships that are carried out without the need to use appropriated funding.

♦ I understand that the State Department has an office of the Global Partnership Initiative at State, led by a Special Representative for Global Partnerships. Should State be working to expand their public-private partnership efforts?

Answer. The Secretary of State's Office of Global Partnerships (S/GP) office is the entry point for collaboration between the U.S. Department of State, the public and private sectors, and civil society. The Office S/GP builds partnerships that address the Secretary's top policy priorities, provides advice and policy guidance internally on how to develop partnerships, and oversees the Department's due diligence process and vetting of private sector partners.

S/GP employs partnerships to advance the Joint Strategic Goal to modernize the way we do diplomacy and development. S/GP uses partnerships in innovative ways to add integral value to the Department of State's mission, by strengthening U.S. diplomacy and development around the world, tapping new networks and technologies, and leveraging specialized expertise.

S/GP has institutionalized public-private partnerships within State as effective tools to advance the Department's goals. The issues at the heart of Secretary Kerry's top priorities are too complex to be solved by USG action alone. Secretary Kerry prioritizes partnerships as a foreign policy tool because they help leverage the best of public and private sector resources to create impactful, practical solutions to advance foreign policy objectives. With no foreign assistance resources from its launch in 2009 to 2011, S/GP successfully proved the value of public-private partnerships by leveraging $283 million. Limited funding in subsequent years allowed S/GP to considerably increase its ability to leverage private sector resources, while aligning its programmatic activity more closely with the principles of selectivity, focus, and integration highlighted in the Quadrennial Diplomacy and Development Review (QDDR) and the Presidential Policy Directive on Global Development (PPD-6).

To expand public-private partnership efforts within the rest of the Department, S/GP created an internal funding opportunity in 2015 called the Leveraging, Engaging, and Accelerating Partnerships (LEAP) Fund to incentivize other bureaus and missions to leverage public-private partnerships and scale the impact of their work. LEAP incubates new partnerships and scales up existing partnerships that directly advance the Secretary's top policy priorities, such as climate change, countering violent extremism, and global health. Not only does LEAP enable S/GP to help other operating units leverage private sector resources—just $550,000 helped six other operating units leverage nearly $2.8 million in private sector commitments in FY15—but it enables S/GP to socialize and institutionalize within the Department the model of using partnerships to do diplomacy and development in direct support of the State-USAID Joint Strategic Goal Framework.

Finally, S/GP is also expanding public-private partnership efforts in State by offering more training opportunities for Department staff on how to do public-private partnerships, including working with regional bureaus to identify public-private

partnership training needs for at-post colleagues. As a result, in 2016 S/GP conducted its first overseas training for Foreign Service Officers and locally engaged staff in consultation with the Bureau of European and Eurasian Affairs. S/GP is working with the other regional bureaus to conduct similar trainings for at-post colleagues in other regions later this year and in 2017.

The partnerships teams at USAID and the State Department work very closely together on a number of initiatives and major events such as Global Partnerships Week, Global Diaspora Week, and the Global Entrepreneurship Summit, which bring together actors from public, private and NGO communities.

Both Agencies, for example, have also worked together to launch the International diaspora Engagement Alliance (IdEA). IdEA harnesses the resources of diaspora communities to promote sustainable development and diplomacy in their countries of heritage. By supporting programs around entrepreneurship and investment, volunteerism, philanthropy, and innovation, IdEA provides a platform to leverage diaspora resources and collaborate across sectors. The State Department amplified the visibility of IdEA by 1) leveraging its network to recruit members to IdEA, 2) hosting events in Washington, and 3) engaging Secretaries Clinton and Kerry to bring high-level support to the effort.

This coordination extends beyond just our partnerships teams. USAID technical and regional bureaus also coordinate with State Department counterparts for joint management of large multi-stakeholder interagency partnerships, such as the Tropical Forest Alliance (TFA 2020).

DAN RUNDE'S RESPONSES TO QUESTIONS SUBMITTED BY SENATOR PERDUE

Question 1. During our discussion about how public-private partnerships could serve as a model for reconstruction in Syria, you mentioned the idea of an international "development assistance bank." How would a bank focused purely on development assistance differ from how OPIC seeks to mobilize funding from international sources for projects in developing nations? How would a development bank compare to the function of the Millennium Challenge Corporation (MCC)? How would a development bank work with the International Monetary Fund and the World Bank?

Answer. I am in favor of strengthening the use of "development finance" institutions and instruments. I think that a "Development Bank" is a nice idea but perhaps something for down the road. There are a number of steps that can be taken with existing institutions before creating a new one.

Regarding the global refugee crisis, I do think is that we should strengthen and fund existing institutions to fully respond to this crisis, of which Syria is a part. This crisis is partially a function of national security indecisions and non-decisions at the global level, conflicts specific to a number of regions, a lack of a sense of personal security, and a lack of economic opportunities in a number of states around the world.

As you know, there are currently 65.3 million forcibly displaced people worldwide. UNHCR says this is the highest level on record and certainly the highest since World War II. International agencies must meet this emergency response fully, but UNHCR faced a 58 percent gap in funding all of its appeals as of the third quarter of 2015. For the Syria crisis specifically, the funding gap is currently 70 percent—the agency needs approximately $3.2 billion more to meet the needs of the crisis. These gaps are something for Congress to consider.

It is important that the United States government consider the foreign and national security implications of the refugee crisis, and look to address the root causes of the crisis in its funding and work. Some of these causes are not solvable with development assistance and soft power and require various forms of military power. Deep and structural societal challenges can often take twenty years or longer to address even with foreign assistance from outside. This has been the case in countries such as Colombia and Afghanistan, where sustained conflict has required long-term strategies by the international community. There is a limited role for the private sector and a larger role for aid agencies and countries such as the United States.

Question 2. You also mentioned the era of the Asian International Investment Bank (AIIB) and how the development of this banking entity should cause us to think "more strategically" about the kind of development funds that struggling countries want. Would you elaborate on this idea?

It is important to note that fifty-seven countries signed up in a short period of time to join the Asian Infrastructure and Investment Bank (AIIB). The list of mem-

bers includes well-respected traditional donor countries including Sweden, Norway, and Germany.

Three things to consider: First, the Obama Administration's explicit decision to not finance coal and to deemphasize fossil fuel projects in general and a decades long de-emphasis of infrastructure investments created a large opening for China to exploit. One only has to review the extensive plans for coal projects in Asia to realize that coal will be a part of the mix of developing countries. Renewable energy financing as the de facto product available is not realistic. Some decisions by the Obama Administration at EX-IM Bank, or its policies towards the World Bank and the regional development banks can only be interpreted as playing cheap domestic politics.

Second, it is important for Congress to understand that the AIIB is also much a result of the dithering by the United States on International Monetary Fund (IMF) quota reform. I want to recognize the very significant responsibility of the Obama Administration in not coming to an agreement with the U.S. Congress. Although it may seem unconnected, the inability of Congress and the executive branch to come to an agreement on IMF quota reform funding caused the reform to be delayed by more than five years, and the United States was by far the last of the G20 members to approve this reform. This provided China with great political cover and an opening to build new institutions, including the AIIB. There is a perception in the U.S. Congress that delaying funding to multilaterals is consequence free; these conflicts and these delays create problems beyond our borders, and the AIIB is one of these consequences.

Third, there is a very real global infrastructure gap, estimated at $1 trillion annually, which for a variety of reasons we cannot fix with foreign assistance alone. The AIIB will make a small but meaningful contribution with its investments in Asia. (When AIIB is fully operational it is expected to invest $10-$15 billion per year—compared to the $1 trillion infrastructure deficit this is a drop in the bucket). Most stakeholders agree that the issue is not money—it is a lack of "bankable projects" that incentivize investment from the private sector, as well as process issues with public and multilateral actors. At CSIS we've done significant work on this topic, publishing two reports in the past year—Barriers to Bankable Infrastructure: Incentivizing Private Investment to Close the Global Infrastructure Gap and Global Infrastructure Development: A Strategic Approach to U.S. Leadership—that examine how to strengthen U.S. public sector actors and the multilateral development banks to prepare and carry out projects to meet this gap.

Finally, related to the topic of offering infrastructure that competes with China, one key topic for the United States to consider with infrastructure is public sector procurement. Although this seems quite obscure, it is quite important to the United States: If we want developing countries to purchase or invest in infrastructure along the lines of the standards of the World Bank, we have to look at the fact that most public sector procurement offices do not have great capacity. They have been trained (if at all) to make decisions on the basis of the "lowest bidder." The United States and others want developing countries to move to a more complex system of "life cycle costs" where factors other than the lowest costs are considered. This is a good thing to do but someone (likely us, our allies and the multilateral development banks) are going to have to foot the multi-billion dollar bill to train hundreds of thousands of public sector officials to meet this new life cycle cost standard.

Question 3. You also mentioned that we need to find more ways to provide infrastructure in developing countries, because "that's what they want." Besides the idea of a development bank, what other ideas would you suggest, in addition to MCC and OPIC, for finding new ways to mobilize global funds for particular countries and projects?

Answer. The development bank is an interesting idea, but in the medium term it is best to invest in our existing institutions. This includes the multilateral development banks, including the World Bank and Asian Development Bank. Additionally, our reports on infrastructure have called for the following reforms for U.S. government actors:

- Develop a long-term strategy for infrastructure development.
- Provide long-term congressional authorizations for critical agencies.
- Provide greater support to specialized U.S. development agencies such as TDA, OPIC and EXIM.
- Prioritize infrastructure support at the country level with our foreign assistance including through USAID.
- Examine existing initiatives for money that can support infrastructure development.

- Seek to reduce the time for multilateral loan approval to a maximum of two years and no longer require guarantees from developing country recipient governments in all cases. In response to the AIIB, JICA, the Japanese Aid Agency and JBIC, an agency akin to OPIC, have committed to no more than 9 months "door to door" on loan approvals.
- Provide technical training and knowledge transfers to developing countries in each infrastructure project.
- Finally, and most important in my mind, launch a major new initiative in collaboration with Japan and other allies to grow and strengthen the Asian Development Bank (ADB).

In the context of infrastructure, the U.S. Trade and Development Agency (USTDA) is an especially important instrument and should be given greater levels of funding to do its good work. USAID has largely gotten out of infrastructure since the early 1970s. Perhaps considering creating a new, small group of engineers at USAID would be a good start. I do not believe there are more than 20 engineers left at USAID. Moving forward, the U.S. government should also look at what pieces of the infrastructure portfolio USAID would best be able to take on. One area that is a good fit with USAID's current capacities and strengths is to take on this very important function of training developing country procurement professionals in how to procure more complex projects using techniques such as life cycle costs. The Millennium Challenge Corporation (MCC) could also play a greater role in training officials in reviewing contracts and meeting other infrastructure process requirements in compact and pre-compact countries.

With improved funding for more personnel among other possible policies, OPIC could also do greater infrastructure financing. I also think OPIC needs to remove its so-called "carbon cap" put in place in the Bush Administration. It was a mistake for the Bush Administration to do this and no other G-7 development finance institution has a so-called "carbon cap."

It is important to note that the MCC has become a sort of de facto financier of infrastructure in the last ten years. According to its most recent financial statement, MCC committed $2.4 billion to roads as of June 30 in fiscal year 2015, or 73 percent of the value of its signed contracts. I understand that there have been some movements towards more creative financial arrangements at MCC in the last couple of years under CEO Dana Hyde. I am encouraged by these changes. These arrangements would mean MCC is better able to leverage its funding so it's not just buying infrastructure projects with grant money, but rather catalyzing other funds for correctly designed and well-financed projects that countries need. These initiatives should be continued and supported.

Question 4. In your testimony you note that the game has changed significantly for those who are interested in development assistance—particularly on how much our U.S. official development assistance contributes to resource flows in the developing world. As you testified, in the 1960s, over 70 percent of resources from the U.S. to developing countries came in the form of foreign aid. Today, official assistance dollars make up less than 20% of resource flows into developing countries.

♦ How can USAID and the State Department adjust to this new reality? Does this mean a fundamental reprioritization of our foreign aid?

Answer. The acquisition and human resource policies of USAID and the State Department, which act as incentives, are set up for a world that prioritizes ODA. It's important to understand the declining role of ODA and set up new incentives for this reality.

Developing countries are seeing ODA play less and less a role compared to other resources, including tax revenue and private sector investment. Honduras, a lower middle income country as classified by the World Bank, financed just 12.7 percent of its budget with ODA in 2014. Tanzania, a low-income economy as classified by the World Bank, financed 68 percent of its healthcare needs with means other than ODA in 2013-2014. A 2008 report on the business of healthcare in Africa by McKinsey and the International Finance Corporation highlighted that private sources finance 60 percent of health care in Africa and private providers receive 50 percent of total health expenditure. In Sub-Saharan Africa, a largely impoverished region, 50 percent of total health expenditure is out-of-pocket payments. That is not to say that our ODA is not important, including in the global health arena—it has been very important—but what it does mean is that we have to think differently about what is our role and what is our contribution.

The theory of change around what the international development community can contribute and what difference we can make must adjust to this reality. In many ways, U.S. actors such as the State Department and USAID are responding by piv-

oting more towards the private sector, but we can do more. In especially the aid advocacy community, the way that our contributions are thought of reflects an earlier mindset—that the United States will write a check and pay for all of the healthcare in a country, but this is in most cases not reality—taxes, other donors, and much of healthcare, even in Africa, is paid for "out of pocket." We must think differently, encourage private sector investment, and build the capacity of states at the national and subnational level to deliver services for their people. This will require sharing risk, providing training, and contributing to innovations in direct service delivery that ultimately empower countries to lead these efforts on their own.

- ♦ What can businesses do that the U.S. government cannot when it comes to foreign aid and development? Why is it important to partner with the private sector? How do PPPs benefit business?

Answer. It is important to first note that ODA is still very necessary—I am in favor of maintaining current ODA levels. Certain topics lend themselves best to being addressed by ODA—democracy promotion, human rights, and improving the rule of law and governance. Private companies do not have the expertise to deal with these. It is important that ODA also lead responses to the refugee crisis and pandemics.

However, on many other topics—agriculture and agribusiness, vocational tech, certain kinds of health programming, and others—companies can play a key role. Companies offer technology, supply chain buying power, other technical expertise, and grant money that can be leveraged to deliver solutions to challenges in developing countries. In addition to resources, products, and expertise, companies can assist with training and capacity building in developing countries through corporate Volunteerism and there have been important innovations in the last 10 years in the corporate volunteerism sector.

PPPs almost always involve shared value for both the corporation and the public actor. Businesses contribute to social impact while also addressing a challenge in their business operating environment, building better relations with communities, or empowering their workforce.

- ♦ How can we further leverage and multiply the impact of U.S. taxpayer dollars in foreign assistance in the future?

Answer. According to a database USAID released in the fall of 2014 and updated in 2015, it had conducted 1,421 PPPs from 2001-2014. A 2016 report by George Ingram, Anne, Johnson, and Helen Moser for the Brookings Institution found that these PPPs were financed by $4.7 billion in USAID funding and $11.5 billion in leveraged private sector funding. While these are large numbers, it is important to note that since 2007, USAID PPP investments have made up only 1-2 percent of overall USAID managed and partially managed funding.

As CSIS made the case in our 2013 Our Shared Opportunity report, USAID should consider committing 25 percent of its funding to partnerships—a radical increase from the de facto 1–2% of all projects currently carried out on a partnership basis. While the objective should not be partnerships for partnerships' sake, in the context of the changing world USAID should be thinking more creatively and leveraging further resources of the private sector for development outcomes. More partnerships would especially be valuable in the agriculture, workforce training, and higher education spaces. They are also especially important in middle incomes country contexts where USAID is reducing its presence and the private sector is active.

Question 5. You testified that the U.S. government and others are adapting to the changing world and environment for development assistance, but that we could go further so our limited resources can achieve greater impact.

- ♦ What changes should State and USAID implement to make limited resources achieve greater impact?

Answer. Please refer to my answers above.

- ♦ What changes can we implement here in Congress to help State and USAID achieve this objective?

Answer. There are a few specific reforms that Congress can pursue to assist State and USAID in achieving greater development impact through increased partnerships:

- As former USAID Administrator Andrew Natsios wrote in Public-Private Alliances Transform Aid for the Stanford Social Innovation Review in 2009, it is important to "remove barriers to cross-sector cooperation-including low risk tolerance, excessive bureaucracy, and narrow notions of possible partners- [and]

also create the right incentives for building alliances." To support these objectives, Congress should at root avoid enacting complicated legislation that ultimately restricts PPP creation.

- To incentivize PPP creation, Congress can break the allocation of resources, or the pledge of resources, by functional account. Congress can further fund partnership accounts, leverage accounts, or multisector accounts to leverage future partnerships. This would move the focus beyond what USAID and State are already doing to enable greater creativity and partnership creation. Congress should seek to enable further incentives for partnerships by creating a series of awards for PPPs that further U.S. national interests and global development objectives with strong and measurable impact. This would create positive competition among agencies and incentivize the private sector to commit more of their resources in partnership.
- Congress should call for better data in the form of an online index of USAID's and State's partnerships, so that stakeholders can track all PPPs across USAID and State in a simple way. While USAID made a positive step in releasing the first public dataset on its partnerships in fall 2014, there is opportunity to build on this. The index should include disaggregated spending on partnerships by partner and the impact our outcome of each completed PPP, where possible. This index should then lead to a bi-annual report to Congress showing PPPs' progress and making recommendations for program improvements.

Question 6. In your written testimony, you state that many systems, rules, and instruments within State and USAID still reflect a past set of assumptions on how development happens—at the expense of the role of the private sector in this development. As you have worked in the private sector, at USAID in the Office of Global Development Alliance, and now are working on development issues in a think tank role, I would certainly appreciate your unique perspective.

♦ Can you discuss the challenges and obstacles to using PPPs in development assistance?

Answer. I mentioned these challenges in my written testimony and will reiterate and elaborate on them here:

- Partnerships require that the U.S. government answer a couple of challenging questions that are not present in traditional development projects. The first relates to forming partnerships—"how do you get people to work with you who don't work for you." The second relates to sustaining the partnership—"how do you keep people working with you who do not work for you." Getting companies and the U.S. government to think about shared value together and get on the same page can be the primary barrier to partnership formation.
- Partnerships can be more time-intensive to structure than traditional development projects.
- It may be difficult for companies to work around U.S. government systems. The U.S. government is sometimes criticized by companies of being too bureaucratic; of being inflexible with changing circumstances; and demonstrating lack of efficiency on making decisions. It is important to note that these challenges can also be present within corporations. Agreeing on joint processes and desired outcomes before a partnership begins is critical to its success.

♦ How can we in Congress work to improve these challenges, or encourage positive change?

Answer. Congress can set the tone for the overall U.S. government by embracing the power of partnerships and recognizing that when companies and the private sector work together on common goals in developing countries, all parties can benefit. Partnerships can lead to greater scale and sustainability of successful approaches in developing countries. It is in the interest of Congress to support partnerships and enable flexible financing mechanisms around them.

♦ How do we achieve the proper balance in foreign assistance between PPPs and strictly government assistance?

Answer. As CSIS made the case in our 2013 Our Shared Opportunity report, USAID should commit 25 percent of its funding to partnerships. I think that this number acknowledges that partnerships are an important part of the U.S. government's tool kit, bringing the benefit of additional leveraged resources and potentially greater scale and sustainability through business involvement. However, they are not the only tool.

♦ Is there a strict set of guidelines for when PPPs are not appropriate for solving development problems?

Answer. As I mentioned in my written testimony, some challenges will continue to require the U.S. government or other governments to lead with development assistance. For example, the response to pandemics including Ebola and Zika must be led by government, but we have seen that they can never be wholly solved by government acting alone. Other challenges, including human rights, democracy promotion, and governance issues, do not necessarily lend themselves well to partnership approaches.

Question 7. A new development at USAID since your departure from the Agency has been the creation of the U.S. Global Development Lab in 2014, whose goal is to bring diverse partners together to solve global development problems.

♦ What is your opinion of the Global Development Lab? Will initiatives like this help spur more rapid and prolific PPPs?

Answer. In 2007, the HELP Commission called for a DARPA for development which refers to DARPA—The military's very flexible and creative organization that has financed and supported all kinds of innovations, including the internet. The Global Development Lab is indirectly or directly a response to this call, and an acknowledgment that many global development challenges have been solved through leaps in technology—the increase in prevalence of cellphone telephony, the development of oral rehydration salts (ORS), and the introduction of mobile money platforms including M-Pesa, to name only some. As these demonstrate, the idea of contributing funding and resources towards innovation for development is an interesting and useful idea.

To the extent that the Global Development Lab is funding these types of innovations through its Grand Challenges and Development Innovation Ventures (DIV) programs, it is doing good and important work. The Lab also plays the role of convening USAID's PPPs, an important role that could be expanded, as I have discussed.

However, one of the key challenges is taking a new innovation to scale. Given USAID's systems and approaches, the work of the Lab is not always mainstreamed throughout the day to day work of USAID, and this can inhibit scale up. There are various solutions for this structural challenge, many of which I think USAID is aware of or already pursuing.

Something that is missing from the discussion on innovation and technology is that both adversaries and friends of the United States covet technology and innovation, especially as they move towards middle income status. CSIS wrote about this topic in partnership with the Japan International Cooperation Agency Research Institute in our May 2016 report "Transformative Innovation for International Development." Countries understand that they need access to innovation in their economies to continue progressing toward prosperity. Accordingly, USAID has to think about how it enables and delivers innovation and technology, not only to governments but also to companies and research institutions. USAID should be thinking more about enabling innovation ecosystems, including how to provide venture capital and other private sector finance to enable innovative SMEs and local innovations. I would like to see USAID and the rest of the U.S. Government thinking more strategically about this important issue

Question 8. Some development experts have expressed concern that the type of private capital flows that have spurred modern PPPs are concentrated in the more advanced developing countries. They assert that the emphasis on leveraging these flows through PPPs could steer more aid resources to these countries at the expense of the world's poorest countries, where opportunities for such partnerships may be limited.

♦ Do you believe this assessment is correct?

Answer. That concern has literally never crossed my mind—there are so many political drivers around the weakest states. I have worked on partnerships for the last fifteen years in a structured way, and this has not happened in my experience. Given the significant challenges and worries that the United States must address in foreign policy and development, this is the last on my list.

♦ How can we ensure that an emphasis on PPPs doesn't steer aid away from the world's most vulnerable countries?

Answer. Most national security problems, as well as pandemics and other emergencies, are accelerated in weak and fragile states. This has been apparent in the global refugee crisis, the growth and movement of gangs, transnational terrorists,

cycles of state fragility, and the expansion of pandemics (as recent experiences with Ebola and Zika have demonstrated). The United States has been given the responsibility of contributing to addressing the root causes and results of challenges in the so-called "Bottom Billion" countries.

I believe that the international development and security communities understand the issue—the problems in these countries can become our problems. It is important to leverage all forms of American power in addressing the challenges in these states, while putting a hard conditionality on foreign assistance to these locations. The United States should make decisions first on what is important to us as a country and then decide how we approach the problems abroad. Partnership is one tool. In many cases these countries may require a more traditional approach to international development.

My belief is that partnerships are a tool and approach; they are not a panacea and should not be the only tool in the toolkit.

ERIC POSTEL'S RESPONSE TO QUESTIONS SUBMITTED BY SENATOR KAINE

Question. At the end of 2015, the U.S. faced an enormous wave of immigration, to include vast populations of unaccompanied minors, originating from the Northern Triangle countries of Guatemala, Honduras, and El Salvador. Responding to this crisis, the U.S. Administration requested $1 billion for assistance to the Northern Triangle to support the U.S. Strategy for Engagement in Central America. Thanks largely to the Senate, during the conference process, Congress approved $750 million. This funding is an important investment—neighboring countries that we are closely connected to with many people and families now living in the United States. The President has asked that this investment be repeated-— request I would like to see happen.

The Northern Triangle countries are facing very significant challenges including: unaccompanied minor outflow to our country, violence driven to a significant degree by the U.S. demand for illegal drugs, rule of law problems and significant economic opportunity challenges. The path of investment that we started last year needs to be supported by appropriate metrics. This should include a metric to ensure we can expand the power of the investment by pairing the $750 million with appropriate coordination between NGO partners, government spending, private investment and private individuals in those own nations who often decide to invest those monies elsewhere due to security concerns.

- ♦ From a public-private partnership standpoint and in your professional opinion, how can the U.S. government best leverage significant investments like this and expand it through this cooperation?

Answer. Engaging the local private sector[1] has increasingly become an important factor to ensuring community buy-in and sustainability of USAID development projects in Central America. Since 2012, USAID has leveraged approximately $146 million in private sector and non-USG resources for public-private partnerships (PPPs) in Central America. This means that for every USAID dollar spent since 2012 on partnerships ($91 million total), the private sector has contributed approximately 1.6 times the amount through USAID's Global Development Alliances (GDA), Development Credit Authority (DCA) guarantees, and other PPPs.

Some of our most successful partnerships with the private sector have focused on crime and violence prevention work targeted at the community level in Central America. USAID engages companies such as Salvadoran conglomerate Grupo Agrisal as well as multinational companies like PriceSmart, Tigo, Claro, Cisco and Microsoft to provide educational, training, and economic opportunities for at-risk youth across Central America. USAID supports more than 200 outreach centers in some of the toughest neighborhoods in the region. In El Salvador alone, 123 outreach centers reach 25,000 at-risk children and youth annually.

- In El Salvador, our SolucionES activity partners with five Salvadoran foundations to combat citizen insecurity and strengthen municipal responses to crime and violence in 50 dangerous communities. This activity works closely with

[1] According to USAID's GDA Annual Program Statement, "'private sector' refers to the following: private for-profit entities such as a business, corporation, or private firm; private equity or private financial institutions, including private investment firms, mutual funds, or insurance companies; private investors (individuals or groups); private business or industry associations, including but not limited to chambers of commerce and related types of entities; private grantmaking foundations or philanthropic entities; or private individuals and philanthropists."

mayors, municipal councils and local residents on designing prevention plans tailored to the needs of each community. Activities include training youth and families in conflict prevention, youth leadership programs, and job training and entrepreneurship. School-based prevention activities provide training to teachers in violence prevention, support to parent-teacher associations and psychological counseling in schools traumatized by violence. USAID's $20 million is exceeded by the private sector's $22 million contribution. At $42 million in combined resources, El Salvador has established the largest USAID public-private partnership with local private sector in Latin America and the Caribbean.

- In El Salvador, Microsoft has trained over 10,000 youth in USAID's outreach centers on software and information technology, with a goal of reaching 25,000 at-risk youth. Along with local private sector, USAID and Microsoft also partner to support "Supérate" (Get Ahead!) centers, which train underprivileged youth in English, computer proficiency, and life skills to become the next leaders of El Salvador. The "Supérate" centers continue to receive free Microsoft software, preparing youth to move on more effectively to secondary education and the workforce. Given the success of this partnership, other companies in El Salvador established centers and the model has been replicated in Panama and Nicaragua.
- In Honduras, USAID continues to expand our partnership with the telecommunications company, Tigo, which provides free internet coverage for over 5,000 at-risk youth. As a result, youth benefit from computer and vocational training classes, reducing their vulnerability to gang recruitment. Between 2012 and 2015 alone, USAID doubled the number of youth outreach centers to 46 with Tigo's expansion of free internet coverage in Honduras. Also in Honduras, PriceSmart, an American company and the largest membership wholesale chain in Central America, recently sponsored the establishment of one of USAID's largest youth outreach centers located outside of San Pedro Sula, Honduras.
- To improve food security, connect farmers to market, and move 150,000 rural Hondurans out of poverty, USAID partners with Walmart and various local and multinational companies. USAID has developed over 41 partnerships with companies to provide training and technical assistance to small-scale farmers, improve the efficiency of key value chains, and increase incomes. These partnerships have been a critical component in increasing incomes of more than 24,000 people by 267 percent in 2014.
- In Guatemala, USAID mobilized $26 million in matching funds from the private sector, non-governmental organizations, and municipalities to support violence prevention interventions between 2010 and 2014. For example, by working with a local bank, USAID pooled some of these resources to improve working conditions and services of five police stations, thereby allowing the police to better perform their jobs with greater dignity in their communities.
- USAID also partners with the private sector at a regional level to increase access to finance across Central America. In response to the worst outbreak of coffee rust in 30 years, USAID partnered with Root Capital, Keurig Green Mountain Coffee, and Starbucks and other partners to leverage $15 million in financing for coffee value chain and agriculture cooperatives in Honduras, Guatemala, El Salvador, and Nicaragua, among other countries. Agriculture financing is complemented by an additional $4 million in funds from the private sector to support agronomic and resilience training for approximately 40,000 farmers in the region. The partnership began in 2014 and ends in 2026.

USAID employs a range of approaches to best harness the private sector's resources, business expertise, technology and marketing channels. Two highly-effective models are:

1. Co-funding and co-creation partnerships.

USAID engages the local and international private sector in co-funding and co-designing projects and partnerships to improve the communities in which they operate, advance USAID's local development goals, and expand services and opportunities available to local communities through the Global Development Alliance (GDA) model. This is a method to jointly design, fund, and implement a project with USAID to advance our development objectives while addressing the private sector's business interests. Companies we partner with through GDAs, such as PriceSmart and Lady Lee in Honduras, or Grupo Agrisal in El Salvador, are companies deeply committed to improving local conditions and contributing to efforts to combat crime and reduce violence in the communities in which they operate. In all efforts to garner private support in Central America, USAID partners with the private sector

when business interests align with our development objectives outlined in each USAID country strategy.

Often these partnerships are structured with the corporate social responsibility outfits of large companies. For instance, Microsoft developed the "YouthSpark Initiative" to train and attract young talent across the globe. In partnership with USAID in El Salvador, Microsoft is outfitting USAID-supported youth outreach centers with computers and educational software, as well as training via the YouthSpark Initiative model. In Honduras, we are working with PriceSmart through its Aprender y Crecer (Learn and Grow) Program, a program educating youth across the region.

2. Unlocking affordable credit/finance for investments in development.

Through USAID's Development Credit Authority, we are using risk-sharing to get working capital to promising entrepreneurs and financing to small farmers.

USAID's Development Credit Authority (DCA) remains a powerful tool in the region. The tool enables local financial institutions to invest in productive economic activities such as small business growth, agriculture, and even municipal infrastructure. Since 1999, USAID has guaranteed $163 million dollars from local banks and local lenders in Guatemala, Honduras, El Salvador, and Nicaragua with $6.4 million in USAID program funds, which are set aside in the U.S. Treasury as a contingent liability (numbers do not include global partners such as Root Capital). To date, lenders have reached 12,982 borrowers in those countries, whose livelihoods have improved as a result of receiving critical business loans. Of those loans made, only $312,000 has been repaid in claims by USAID to those lenders. Therefore, the real cost of leveraging DCA guarantees over the past 16 years in those four countries was $312,000, yielding a leverage ratio of 1:380 (for every 1 dollar USAID spent, 380 dollars were lent by private local lenders). Of the $6.4 million originally set aside in the U.S. Treasury, $6.1 million remains.

In the Root Capital example mentioned above, USAID leveraged $15 million for coffee rust. In Guatemala, through USAID's Development Credit Authority, the Agency leveraged $12 million in financing from Guatemalan bank Banrural to support community-based forestry concessions, associations, and micro-, small- and medium-sized enterprises within certified value chains in the Maya Biosphere Reserve of Guatemala.

Evidence from USAID's partnerships globally demonstrates that alliances work best and have the greatest development impact when they are premised on the notions of shared interests, shared value, and shared risks and rewards. USAID seeks to partner with companies that are committed to shared value; such companies recognize there is a competitive advantage to creating business innovations that address society's needs and challenges. By forming strategic partnerships with USAID, companies can share the risks of investing in key emerging markets like Central America, while contributing to improved social and economic outcomes in the communities where they operate. USAID will continue to serve as a catalyst for private sector and non-USG investments leveraging the significant support the USG is making in Central America.

DANIEL RUNDE'S RESPONSE TO QUESTIONS SUBMITTED BY SENATOR KAINE

Question. From a public-private partnership standpoint and in your professional opinion, how can the U.S. government best leverage significant investments like this and expand it through this cooperation?

Answer. Our assistance should aim to catalyze the political will needed to spark real change that otherwise might not occur without our persistent and focused diplomatic engagement.

One of the most important things the United States can do in the Northern Triangle with its limited foreign assistance is to support policies and activities that encourage higher levels of formal economic growth. These countries need to grow at 2 or 3 percentage points more than they currently do in order to absorb the young people that join the workforce each year. If these young people are not absorbed into the formal workforce, they are at a higher risk of joining a gang or relocating to make a living. Our assistance packages are going to be no more than $200 million per country and far less than 1% of the GNP of each of the three countries. We cannot change their economies on our own. We should take advice from and partner with the local private sectors and local chambers of commerce. We should use our assistance dollars to support reformers within government-both at a sub-national and national level. Each of these countries has leaders in its civil society and faith-

based sectors who have impactful ideas about ways to encourage alternatives to violence-ridden lifestyles.

But this won't happen if these countries do not tackle the serious corruption and security issues they suffer from; our assistance dollars can help with these challenges.

We should use these resources to focus on addressing the root causes that lead people to leave the region. These issues are extremely high levels of violence and low levels of formal economic opportunity. Combatting these fundamental issues requires strategically investing resources over the long-term to improve public administration, tax collection, and governance.

Private sector investors rely on stable governments and capable administrations when investing; the United States can help to build this environment. If the United States wants to enable an environment for private financing, it should make a multi-year commitment of its own to work on the ins and outs of good governance that will set the stage for later growth. In order to measure and demonstrate progress in these areas, a set of metrics between the different branches of government on issues such as unaccompanied minors, tax collection, and murder should be centralized. This will allow for a common understanding of progress and challenges that remain, which will also give investors a more realistic picture of opportunities in the region.

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