

Testimony of Jim Kolbe, Senate Foreign Relations Committee, 4 May 2017

Chairman Corker, Ranking Member Cardin, and members of the Committee:

Thank you for the opportunity to testify today on the subject of the role of the private sector in international development. This is a timely topic, as we contrast the strategic purpose and impact of United States assistance programs with the administration's proposed foreign affairs budget, which would make significant reductions in diplomacy and development programs. I would like to commend the Chairman and Ranking Member for convening this hearing and for keeping the Committee focused on the importance of U.S. global leadership, effective partnership, and good development practices.

I am also delighted to be joined by the other distinguished panelists here today. There is enormous experience here from the U.S.-based private sector about how to advance economic development abroad.

I serve as an Honorary Co-Chair of the Modernizing Foreign Assistance Network (MFAN), a reform coalition composed of international development practitioners and foreign policy experts. MFAN advocates for responsible reforms to increase the effectiveness of U.S. foreign assistance programs. Since its founding in 2008, MFAN has been a vocal advocate for elevating development as a national security pillar equal to that of diplomacy and defense. I also appear today with the background of having served, while a Member of Congress, as chair for six years of the Appropriations Subcommittee on Foreign Operations—responsible for the funding the programs we are talking about today.

The world has changed dramatically over the past 15 years. We face a growing number of complex, global crises involving failed states and terrorist organizations that impact entire regions and jeopardize America's safety and security as well as the lives of innocent civilians. We must honestly acknowledge the failures of our foreign assistance programs, such as in a country like Zimbabwe, where we once had a robust development assistance program, only to see the country become an autocratic kleptocracy. On the brighter side, we see a number of developing countries experiencing high rates of economic development, leading to improved health and productivity of their citizens.

There is an important role for U.S. foreign assistance and the private sector in each of these contexts. Recent Presidents of both parties have partnered with Congress to make assistance smarter, more efficient, and more effective. These efforts – from establishing the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR), to enactment of the Foreign Aid Transparency and Accountability Act, the Global Food Security Act, and the Electrify Africa Act – all advance in different ways our national interest and the cause of development.

There is widespread bipartisan agreement that the United States needs strong and effective development programs to promote sustained economic growth and poverty reduction, foster stability, counter major global health threats, and bolster free societies. Under Republican and

Democratic administrations alike, U.S. assistance has played a key role in shaping a broad alliance of like-minded, free-market democracies.

Today, the connection between U.S. foreign assistance, the private sector, and economic growth is clear: *eight of America's top ten export markets are former aid recipients*, and all are now close U.S. allies. There are significant opportunities for the U.S. government and the private sector to work more closely together to achieve global development that advances U.S. economic, diplomatic, political, and security interests as well as our core values, ensuring that every individual has a fair chance to achieve his or her potential and shape the world around them.

Adding value to international development

In 1960, Official Development Assistance made up nearly 70 percent of all capital flows to the developing world. Today, that figure is under 10 percent, with the overwhelming majority from private capital, remittances, and philanthropy.

The benefits of a private sector led approach to inclusive development are numerous. Developing countries benefit from the dynamism that comes from private sector job creation, foreign direct investment and technology transfer, workforce development, access to foreign markets and customer bases, and from the development of a tax base that ultimately funds social investment programs in health and education. The international private sector benefits as well, from the ability to develop new customers and markets, expand global supply chains, and expand workforce talent.

To foster inclusive growth and job creation, U.S. foreign assistance programs and the private sector can work in partnership to reinforce four conditions for economic development.

First, good governance and the rule of law is vital. This includes adherence to due process, property rights, intellectual property protections, anti-corruption regimes, and fair and transparent procurement systems.

Second, free market institutions and protections should be fostered. The examples are numerous and include functioning capital markets and banking systems, financial and investment legal system, protections against expropriation, and even providing political risk protections.

Third, investment in hard and soft infrastructure in developing countries is essential. Building air and sea ports and road systems and supporting transparent and efficient customs systems yield substantial returns. Congress's recent adoption of the Electrify Africa Act is a prime example of the opportunities that exist to leverage public and private dollars for maximum development impact.

Fourth, workforce development is an essential precursor to economic development. Quality education and health systems, worker training programs, and worker safety protections are examples of investments in people that can spark vibrant economies in the less developed world.

As I testified before this Committee in December, 2015, the Millennium Challenge Corporation is an outstanding example of the power of U.S. foreign assistance to support an enabling environment for economic growth and poverty reduction. In 2004, while serving as chairman of the House Appropriations Foreign Operations Subcommittee, our subcommittee worked to pass--with strong bipartisan support --the legislation creating the Millennium Challenge Corporation (MCC). MCC represented a new approach to foreign assistance, with a radical departure from the way programs had been designed and countries selected for aid assistance in the past. It was designed with the singular mission of *reducing poverty through economic growth* in the world's poorest but relatively well-governed countries. The MCC's model of assistance is focused on four sound principles:

- 1) Selectivity in determining which countries to partner based on agreed-upon criteria—objectively measured and objectively applied;
- 2) A business-like approach to choosing investments using well designed analyses of constraints to economic growth;
- 3) A focus on country ownership through the consultation, development, and implementation processes of each MCC compact; and
- 4) A rigorous commitment to transparency and accountability from beginning to end of a country compact.

What has made the MCC successful has been its unwavering commitment to the principles upon which it was founded: democracy, rule of law, good governance, and transparency and the inclusion of outside, private directors on its governing board. These are principles deeply imbedded in the American value system. But they are also principles which peoples of other countries strive to incorporate into their own governing process.

Over time, MCC has integrated a number of requisite steps to foster inclusiveness and accountability, including constraints-to-growth analysis, broad local consultation, economic rate of return assessments, and monitoring and evaluation plans.

One theme that has emerged in MCC's work is the importance of working with the private sector, in sectors including transportation, power, water, sanitation, public health, and other services. There is recognition that government partnership with the business community can in many cases deliver, operate, and maintain services more efficiently than the government acting alone – but only if the proper legal frameworks are in place to make sure that both the public and private stakeholders are treated fairly. MCC has a growing track record of success incentivizing reforms to ensure that these frameworks are there.

In Ghana, for example, MCC and the Government of Ghana have heard clearly from businesses that a major obstacle to investing in power is uncertainty about the financial strength of the public utility, the Electricity Company of Ghana (ECG). So as part of MCC's nearly \$500 million investment in the power sector, MCC is helping the government structure a concession for a private sector operator that will ensure ECG's financial viability. MCC's investment in

Ghana is expected to generate nearly \$4 billion in new private investment and economic activity in the coming years, including major investments from GE and Endeavor Energy. These companies have said that Ghana's MCC-backed reforms marked important steps towards building the creditworthy off-taker they needed.

In Jordan, MCC invested \$93 million to expand Jordan's As-Samra Wastewater Treatment Plant. This investment mobilized an additional \$110 million in private finance through a public-private partnership. Critical to the success of the project was the use of a financing model that enabled the Government of Jordan to invest more public funds in the water sector. As a result of the project, more high-quality treated wastewater can be used in irrigation, and Jordan gets more than one use out of each drop of water.

Facilitating a process for governments and communities – including the private sector – to lead their development and be accountable for results should be the guiding principle of all U.S. assistance programs.

Indeed, we are seeing U.S. agencies increasingly adopt these practices, significantly strengthening partnerships, country ownership of development, and accountability for results. USAID, in particular, has transformed in recent years, increasing its partnership with the private sector and significantly strengthening its policy, evaluation, transparency, and learning functions. A recent GAO review (GAO-17-316) of the six largest U.S. aid agencies, for instance, found that MCC and USAID had the highest number of good and high quality evaluations.

With increased attention to accountability, multi-stakeholder partnerships, and local ownership, U.S. development assistance can better support poverty-reducing economic growth and strengthen the citizen-state compact so that governments are more responsive to the needs of their people.

Recommendations to better tap into this potential

U.S. global leadership remains paramount even though we face an increasingly constrained budget environment. Faced with these challenges, we must identify opportunities to achieve greater leverage from US private sector investments. There are a number of avenues that are ripe to pursue.

One such area is a systematic review and removal of obstacles to greater investment and trade within regions that are often stymied by poor infrastructure, inefficient customs regimes, and corruption. We should focus on laws and practices that hamper not just U.S. enterprises from conducting business in these countries, but simultaneously cripple the creation and growth of home-grown local small and medium-sized enterprises (SMEs). Too often, local entrepreneurs in developing countries are unable to start and expand businesses because of unnecessary and outmoded regulations, lack of access to land titles, lack of a legal identity, or other institutional obstacles. In turn, international companies will be more inclined to invest in emerging economies in which clear codes of conduct and the rule of law are institutionalized and functioning.

Another area of potential is improving the impact of U.S. public-private partnerships (PPPs). With an estimated 1,600 PPPs initiated by USAID since 2001, there is clear recognition of the potential that exists in leveraging private expertise and resources towards a public purpose. Despite wide acknowledgment of the pivotal role the private sector must play in advancing inclusive growth, too little is known about either the impact of specific PPPs or the efficacy of particular PPP structures.

I recommend six steps for your consideration:

- 1) Strengthen U.S. development finance mechanisms, such as establishing a new Development Finance Bank that would pull together under a single roof agencies like OPIC, TDA, and existing strands of USAID and Treasury that promote development finance. It must be provided with enhanced authorities, including additional risk mitigation tools, technical assistance resources, and equity investment capacity, as my colleague Robert Mosbacher, former president and CEO of OPIC and MFAN Principal, recently described in a recent article titled, “How this little known government agency helps put America first.” Such a Development Finance Bank should adopt a self-sustaining financial model where its operational budget, including technical assistance, is fully paid for by operating profits.
- 2) Work with partner governments to support policies and programs that are designed to foster a productive private sector environment for U.S. and local business. For local businesses, this could include means of transitioning local small and medium enterprises (SMEs) from the informal economy to the formal economy.
- 3) Systematically review the effectiveness of U.S. public private partnerships to determine how to increase their development impact. There is growing support for the gamut of dynamic public-private partnerships that have emerged on the development stage, but they require rigorous evaluation if we are to improve future partnerships and their impact.
- 4) Enhance coordination between U.S. development agencies and the U.S. and local private sector. The private sector perspective must be overtly incorporated into country development plans and a rigorous analysis to constraints to growth must be pursued, as proposed in the Economic Growth and Development Act sponsored in previous years by Senator Isakson.
- 5) Build on the demonstrated success of the Millennium Challenge Corporation’s ability to operate in environments that are more fertile for private investment by expanding its threshold programs and compact agreements to more countries.
- 6) Finally, we must maintain and strengthen our tools of global engagement and development – not abandon or undermine them. The effectiveness of MCC, USAID, PEPFAR, and other U.S. agencies is real, and we should focus on opportunities to strengthen this impact. As you consider the foreign assistance budget and the agencies that deliver this assistance, it is vital that decisions of funding and structure be based on

sound reform principles, clear objectives, and a global development strategy drafted in consultation with Congress, the Administration, and the development community.

In conclusion, the power of U.S. foreign assistance and inclusive private investment are major opportunities for economic growth, job creation, and poverty reduction. In a time of limited budgets, effective coordination between the U.S. government and the private sector to achieve goals that benefit both are more vital than ever.

Thank you, and I look forward to answering any questions you may have.