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Private-Sector Development and U.S. Foreign Policy

Evidence of Indirect Diplomatic, Economic, and Security Benefits

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Daniel F. Runde

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Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
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Contents

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Introduction

International development has fundamentally changed in the past 50 years through the rise of new donors and new sources of financing. One of the major shifts is the rise in the importance of the private sector. The composition of U.S. financial flows to the developing world is particularly illustrative of this point. In 1960, 70 percent of U.S. financial flows were public (some form of official development assistance) and 30 percent private. By 2012 only 10 percent of U.S. financial flows were public and 90 percent were composed of some form of private flows (foreign direct investment, corporate philanthropy, remittances, and other sources).[1] Recognizing the reality of the situation, a number of donors—chief among them the United States—have sought to leverage the private sector to achieve greater development outcomes. There is also a sense that partnerships with the private sector can be a pillar for American power abroad specifically by helping to achieve critical U.S. foreign policy objectives.

Moreover, this shift toward a greater use of the private sector has occurred when the United States has consciously raised the importance of development policy in achieving its foreign and national security policy objectives. Foreign assistance has long played a role in U.S. foreign policy, especially during the Cold War when the country used assistance to support friendly governments to contain communist aggression. In its 2010 National Security Strategy, the Obama administration noted, "Through an aggressive and affirmative development agenda and commensurate resources, we can strengthen the regional partners we need to help us stop conflicts . . . build a stable, inclusive global economy with new sources of prosperity . . . and ultimately position ourselves to better address key global challenges by growing the ranks of prosperous, capable, and democratic states that can be

[1] Center for Global Prosperity, *The Index of Global Philanthropy and Remittances* (Washington, DC: Hudson Institute, 2013), 9, http://www.hudson.org/content/researchattachments/attachment/1229/2013_indexof_global_philanthropyand_remittances.pdf.

our partners in the decades ahead."[2] This echoed earlier sentiment in the Bush administration's 2002 and 2006 National Security Strategies.

Given the focus on the role of the private sector in development, it is reasonable to ask: what are the benefits that private-sector development provides the United States? More specifically, when the United States facilitates connections between its private sector and the private sectors of developing countries, what does the United States get out of it (in diplomatic, economic, and security terms)? This is especially relevant now because there is an overlay of competition: many commentators believe that rising powers such as India and China are doing a far better job of capturing these benefits to the detriment of the United States; this is most keenly felt in sub-Saharan Africa. It is, therefore, also fair to ask how do the United States' benefits compare to those India and China derive through their efforts to link their private sectors with the private sector of developing countries? A second-order question under review is if there is a benefit, where, when, and how should the United States deploy this tool to achieve these benefits?

In order to answer these questions, the project authors conducted four case studies that examined U.S. private-sector development programs (Feed the Future, or FTF, and Partnership for Growth, or PFG) in Tanzania, Ghana, El Salvador, and Honduras to determine specific diplomatic, security, and economic benefits, and two case studies that examine Indian and Chinese private-sector development efforts in Kenya. These case studies will be published separately from this paper.

In examining development programs, there are theoretically two broad measures of benefit: the direct development benefits that accrue to the host country and the indirect benefits that accrue to the donor nation. In justifying its foreign aid budget to Congress and the broader public, the United States frequently cites the diplomatic, security, and economic benefits that come from them. Indeed this is true of *all* U.S. development programs and not just those focused on private-sector development (PSD); however, evaluations of U.S. programs do not use quantitative indicators that seek to measure these benefits.

In order to measure benefits of U.S. private-sector development programs, specifically PFG and FTF, the authors used two broad categories: diplomatic and economic. Within these two categories, indicators were selected that would quantify the U.S. diplomatic and economic relationship with the four case study countries. Diplomatic indicators were selected to measure the strength of the political relationship and included: public perception of the United States within the country and voting coincidence at the United Nations on votes identified by the State Department as "important votes" in the General Assembly. To measure the strength of the economic relationship, the following indicators were selected: value of imports from the United States, value of exports to the United States, foreign direct investment (FDI) inflows from the United States, and total U.S. FDI stock. As a point of

[2] The White House, *National Security Strategy 2010*, May 2010, 15, https://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf.

comparison, the country's ranking on the World Bank's *Doing Business* report is provided. Finally, U.S. foreign assistance spending in each country is included to demonstrate the level of development commitment the United States maintains in each. These quantitative indicators were supported by qualitative research that included stakeholder interviews and a significant desk review of documents related to the two programs under review.

U.S. Private-Sector Development Programs

The United States is widely seen as a leading proponent of private-sector development among Organization for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) donors. In particular, the U.S. government has set the standard for forming partnerships with the private sector to achieve development outcomes. The U.S. government has codified this through several recent policy documents reaching back to the Bush administration's National Security Strategy of 2002 and 2006, the 2010 Quadrennial Diplomacy and Development, Presidential Policy Directive-6 (PPD-6), and both Obama administration National Security Strategies (2010 and 2015). PPD-6, issued by the Obama administration in 2010, is the Global Development Strategy that seeks to elevate the importance of broad-based economic growth. It states that in order to achieve this goal, the United States will "leverage the private sector, philanthropic and nongovernmental organizations, and diaspora communities."[3]

The most visible way in which the U.S. government has worked on private-sector development is through forming public-private partnerships. According to the U.S. Agency for International Development (USAID), a global development alliance is "a partnership involving USAID and the private sector where the partners work together to develop and implement activities that leverage and apply our respective assets and expertise to advance core business interests, achieve USAID's development outcomes, and increase the sustainable impact of USAID's development investments."[4] Global Development Alliance (GDA) focuses on developing alliances that 1) focus on development impact; 2) are based on complementary interests and objectives; 3) utilize market-based approaches and solutions; 4) seek extensive private-sector collaboration and impact; and 5) increase scale, efficiency, and effectiveness.[5]

The original definition of PSD used for this project was narrowly focused on projects by a government to catalyze a link between the private sector of its own country and the private sector of a developing country for mutual benefit or human development similar to the GDA. In the course of this project, the authors broadened the definition beyond just partnerships given that most development agencies apply a broader definition. PSD is a

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[3] The White House, "U.S. Global Development Policy," September 22, 2010, https://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy.
[4] U.S. Agency for International Development (USAID), "FY2014 and FY2015 Global Development Alliance Annual Program Statement," February 20, 2014, 4, http://www.usaid.gov/sites/default/files/documents/1880/2014_GDA_APS.pdf.
[5] Ibid., 4–7.

range of strategies for promoting economic growth and reducing poverty by building private enterprises. This can include policy and regulatory reform, facilitating greater access to finance, infrastructure development, and reducing barriers to entry to the formal economy. The U.S. government has launched initiatives in recent years that have a specific private-sector development component. This includes two of the Obama administration's flagship development efforts: Feed the Future and Partnership for Growth. Partnerships are a component of these two programs, but not the sole focus. Indeed both are more focused on addressing barriers to investment, which is less about partnership and more about regulatory reform, access to finance in some cases, and infrastructure.

Feed the Future. Launched in 2010, Feed the Future (FTF) was an ambitious effort by the Obama administration to create a centralized food security program with three main goals: increasing the productivity of small-holder farmers, growing markets, and improving nutrition. In meeting these goals, the U.S. government identified the private sector as a key partner, especially in raising productivity and growing markets. This would be accomplished primarily by bringing small-holder farmers into agricultural supply chains; FTF identified an initial goal of raising $70 million in private-sector financing to support this effort. Thus far FTF has been launched in 19 countries: Bangladesh, Cambodia, Ethiopia, Ghana, Guatemala, Haiti, Honduras, Kenya, Liberia, Malawi, Mali, Mozambique, Nepal, Rwanda, Senegal, Tajikistan, Tanzania, Uganda, and Zambia. Indictors to measure progress on FTF are broken into two broad objectives: Inclusive agriculture sector growth and improved nutritional status.[6]

Partnership for Growth. The Obama administration launched the Partnership for Growth (PFG) in 2010 to partially implement the principles endorsed in PPD-6, the Global Development Strategy. At its core, PFG uses a joint (U.S.-host country) constraints analysis to identify key barriers to broad-based growth with the resulting analysis helping to construct a "Joint Country Action Plan" (JCAP) that identifies concrete steps for both the United States and host country to implement. At its core it does not seek to partner with the private sector, but rather works to create the enabling environment to generate greater private-sector development. The United States has so far signed PFG agreements with Tanzania, Ghana, El Salvador, and the Philippines; all four countries have completed their joint constraints analysis and agreed upon a JCAP with the United States.

PFG was conceived to use existing money in a new way to create an enhanced relationship between the United States and recipient countries. Enhanced relationship, in this instance, meant a stronger trade and investment relationship that could lead to broad-based, sustainable economic growth. In establishing a baseline of countries that could be PFG eligible, the U.S. government team working on the program started with the Millennium Challenge Corporation (MCC) scorecard. In addition, there was a consideration of the openness on the part of the potential partner country in entering into PFG and where the

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[6] USAID, "M&E Guidance Series: Volume I: Monitoring and Evaluation under Feed the Future," February 2014, http://www.feedthefuture.gov/sites/default/files/resource/files/ftf_guidanceseries_vol1_overview_feb2014.pdf.

country fit within broader U.S. interests. At its core, PFG seeks to create the conditions necessary to facilitate growth through a stronger trade and investment relationship by focusing on key constraints. In all four PFG countries, this has led to a focus on the regulatory environment, human-capacity development, rule of law and anticorruption, and in some instances, infrastructure (Tanzania rural roads project).[7] Each individual project within a PFG agreement has indicators measured every six months to determine progress and are unique to the project and partnership in question.

Measuring the Benefits of PSD

As noted in the introduction, this paper seeks to measure the indirect diplomatic, economic, and security benefits for the United States of private-sector development programs. Although the U.S. government frequently uses these benefits as justification for foreign assistance budgets to Congress, it does not in fact evaluate individual development projects on this basis. Given this fact, the authors selected economic and diplomatic indictors in order to quantify private-sector development (PSD) interventions carried out over the last five years.

Proxies for economic indicators were selected for the four country cases studies, including: U.S. foreign direct investment stock in 2009 and 2013, as well as the differential between the two years; total trade value (exports and imports) in 2009 and 2014, along with the differential; and as a comparison, the country's rank in the World Bank's *Doing Business* report and the differential to give a measure of broader improvements in the business climate. Results are shown in Table 1.

Diplomatic indicators chosen were public perception of the United States in 2009 and 2013 as measured by the Gallup Global Perceptions of U.S. Leadership poll; and UN voting coincidence on "important" votes in the General Assembly in 2009 and 2013. Again, as with economic indicators, the differential is shown between the two years to show an increase or decrease. Results are shown in Table 2.

The U.S. foreign assistance budget for each country is shown for FY2010 and FY2015, as well as the economic growth sub-account for both fiscal years. This information is included to place U.S. development engagement in context for each of the countries. This is presented in Table 3. Finally, U.S. foreign military financing and international military education and training budgets for each country from FY2009 to FY2015 is included to provide a snapshot of U.S. security engagement with the four countries. This data is presented in Tables 4 and 5.

[7] Background on the PFG process provided by anonymous interview with the author.

Table 1. Economic Indicators[a] (millions of dollars)

	U.S. FDI Stock 2009	U.S. FDI Stock 2013[b]	Differential +/-	Total Trade Value w/ U.S. 2009	Total Trade Value w/ U.S. 2013	Differential +/-	*Doing Business* Rank 2009	*Doing Business* Rank 2013[c]	Differential +/-
Ghana	$2,100.0*	$3,600.0*	+$1,500.0	$850.9	$1,348.3	+$497.4	87	64	+23
Tanzania	$71.7	$319.0*	+$247.3	$207.3	$482.3	+$275.0	127	134	-7
El Salvador	$2,572.0	$2,869.0	+$297.0	$3,840.5	$5.711.3	+$1,870.8	72	113	-41
Honduras	$852.0	$901.0	+$49.0	$6,686.9	$9,915.9	+$3,229.0	133	125	+8

[a] Trade statistics from: U.S. Census Bureau, "U.S. Trade in Goods by Country," https://www.census.gov/foreign-trade/balance/; FDI statistics for Honduras: U.S. State Department, "Investment Climate Statements 2009, 2014," http://www.state.gov/e/eb/rls/othr/ics/2014/index.htm; FDI Statistics for Ghana: U.S. Trade Representative (USTR), "Ghana," https://ustr.gov/countries-regions/africa/west-africa/ghana; FDI statistics for Tanzania: Tanzania Investment Center, "Tanzania Investment Report 2012," 44, http://www.tic.co.tz/media/TIR2012%20Main%20Report%20for%20Web.pdf; OECD, "FDI Flows by Partner Country," http://stats.oecd.org/Index.aspx?DataSetCode=FDI_FLOW_PARTNER; and FDI statistics for El Salvador: U.S. State Department, "Investment Climate Statements 2009, 2014," http://www.state.gov/e/eb/rls/othr/ics/2014/index.htm.
[b] Indicators in Table 1 reflect most recently available data. Those numbers with an * represent closest possible data to date noted: FDI numbers for Ghana are 2010 and 2012 respectively, and FDI numbers for Tanzania are 2009 and 2012.
[c] In 2013, the *Doing Business* Report ranked a total of 185 countries; in 2009, that number was 181.

Table 2. Diplomatic Indicators[a]

	Positive View of U.S. 2009	Positive View of U.S. 2013	Differential +/-	UN Voting Coincidence 2009	UN Voting Coincidence 2013	Differential +/-
Ghana	80%	62%	-18	44.4%	50.0%	+6
Tanzania	89%	61%	-28	50.0%	44.4%	-5.6
El Salvador	68%	52%	-16	62.5%	57.1%	-5.4
Honduras	54%	46%	-8	60.0%	66.7%	+6.7

Note: UN voting coincidence is based on data found in the State Department's annual *Voting Practices in the UN* report to Congress. This data is specifically for votes that the State Department has identified as "important votes" in the General Assembly.

[a] Cynthia English and Julie Ray, "Sub-Saharan Africa Leads World in U.S. Approval," Gallup World Poll, May 25, 2010, http://www.gallup.com/poll/134102/Sub-Saharan-Africa-Leads-World-Approval.aspx; Ian T. Brown, "U.S. Leadership, Obama Winning Favor in Latin America," Gallup World Poll, December 1, 2009, http://www.gallup.com/poll/124514/Leadership-Obama-Winning-Favor-Latin-America.aspx; Meridian International Center and Gallup, *The U.S.-Global Leadership Project* (Washington, DC: Gallup, 2014), http://www.meridian.org/images/stories/programs/pdf/Spring_2013_USGLP.pdf; U.S. State Department, "Voting Practices in the United Nations 2013: Report to Congress," March 2014, http://www.state.gov/documents/ organization/225048.pdf.

Table 3. U.S. Foreign Assistance Spending to Case Study Countries[a] (millions of dollars)

	FY2010 Total Assistance Budget	FY2015 Total Assistance Budget	Differenti al +/-	FY2010 Economic Growth Budget	FY2015 Economic Growth Budget	Differential +/-
Ghana	$141.4	$159.3	+$17.9	$28.9	$50.0	+$21.1
Tanzania	$467.7	$589.9	+$122.2	$14.4	$80.0	+$65.6
El Salvador	$56.1	$27.6	-$28.5	$8.8	$11.2	+$2.4
Honduras	$50.3	$48.2	-$2.1	$13.3	$15.0	+$1.7

Note: The table shows the total value of U.S. foreign assistance programs in the four countries with the exception of MCC programs. The economic growth sub-account is further broken out to show the value of U.S. aid directed toward PSD-like programs. FTF and PFG funding fall into this category.

[a] Foreign Assistance spending for Fiscal Year 2010 and Fiscal Year 2015: ForeignAssistance.gov, "Foreign Assistance Dashboard," http://www.foreignassistance.gov.

The quantitative results for the four countries are shown in Tables 1 and 2. The economic indicators show that the United States has improved its standing in all four countries since 2009. In all four countries reviewed, the United States saw its FDI stock rise between the years indicated and the total value of trade increase. The U.S.-Ghana economic relationship saw significant gains during this period, with FDI stock increasing to $3.6 billion (up by $1.5 billion) in 2012 and total trade growing to $1.4 billion in 2014 (an increase of $548.1 million). The United States also grew its trade relationship with both El Salvador (an increase of $1.9 billion) and Honduras (an increase of almost $3.9 billion) during this period. Diplomatic indicators are more mixed, with declines registered in the public perception of the United States between 2009 and 2013. Voting coincidence at the UN is a more mixed picture, with Honduras and El Salvador more likely to vote with the United States than is Ghana or Tanzania. During this time, Ghana and Honduras both increased the likelihood of voting with the United States, while Tanzania and El Salvador both decreased.

What do these results show? Looking at these indicators, **it is difficult to draw the conclusion that U.S. private-sector development programs have delivered direct diplomatic and economic benefits to the United States in the short term**. These quantitative indicators were further supported by qualitative research that included desk reviews of U.S. government planning documents for the programs, evaluations, and stakeholder interviews. Given that the quantitative indicators did not clearly identify a linkage between PSD projects and indirect benefits for the United States, the qualitative research was critical to concluding that the U.S. PSD programs have not delivered diplomatic or economic benefits to the United States. This work identified five main reasons why it is not possible to do so:

1. Difficult to determine causation or correlation in the case of indirect benefits.
2. Programs in question fall into a category of international development projects that are difficult to quantify.
3. U.S. development programs are evaluated on their development benefits.
4. Other policy actions (trade agreements) likely generate greater indirect benefits.
5. Other issues (political economy of country, corruption, etc.) may limit the benefits that PSD will accrue.

Development outcomes are notoriously difficult to measure for PSD given that it falls into a category of development programs that do not lend themselves to easily quantifiable outcomes. Within international development there has been a broad shift toward quantifiable measurements for development outcomes. The belief is that, by having easily counted indicators, development is easier to justify programs by demonstrating success. To be sure, as demonstrated above there are quantifiable indicators available that could be linked to the success or failure of a PSD project. Demonstrating causation in these cases, though, is far more difficult given that broad macroeconomic trends (foreign direct investment flows and trade statistics) do not occur in a vacuum from other events.[8]

One clear conclusion is that the economic benefits highlighted above are attributable to other programs or events unassociated with U.S. PSD programs. For example, the increase

[8] See Andrew Natsios, *The Clash of Counter-bureaucracy and Development* (Washington, DC: Center for Global Development, July 2010), 6–9, http://www.cgdev.org/files/1424271_file_Natsios_Counterbureaucracy.pdf.

in U.S.-Ghana trade depicted in Table 2 (total trade value has increased by $548.1 million between 2009 and 2014) has occurred largely because of the African Growth and Opportunity Act (AGOA) and broader trends in the development of the energy sector in Ghana. Indeed it is likely that the discovery of offshore oil reserves in Ghana in 2007 and 2008 may have been as responsible, if not more so, for the surge in U.S. exports to Ghana. In 2013, the United States imported $365.8 million worth of goods from Ghana, of which $60 million was under AGOA provisions.[9] Looking at the trade data for El Salvador and Honduras offers a similar perspective. Both countries are part of the Central America Free Trade Agreement (CAFTA-DR), a U.S. trade agreement concluded in 2005. This agreement has delivered clear benefits to the United States, which has seen its exports to Honduras increase 62 percent and to El Salvador by 71 percent since 2005.[10] The United States is the largest trading partner for each country, and is the largest provider of foreign direct investment.

A key limiting factor to drawing a connection between quantifiable benefits of U.S. PSD projects is the relatively short time these programs have been underway. PFG was launched in 2010 with joint constraints analyses being completed in Tanzania, El Salvador, and Ghana over the course of 2011. All three countries have now launched their JCAPs with implementation running from 2012 to 2016. Ongoing monitoring of results is part of each country's JCAP; however, long-term benefits will be next to impossible to demonstrate until these programs have been completed.

Additionally, the four countries examined all had strong relationships with the United States prior to the launch of PFG and FTF in country. Indeed the U.S. government decided to launch these programs in Ghana, Tanzania, El Salvador, and Honduras largely on the strength of the existing relationship. The United States is the primary trading partner for both El Salvador and Honduras, as both are members of CAFTA-DR. Even though the trading and economic relationship between the United States and Ghana and Tanzania remains relatively small, both countries maintain relatively close relationships with the United States. Both have been long-term recipients of U.S. foreign assistance and both (Ghana in particular) are seen as relatively successful countries from a governance and macroeconomic management perspective. The strength of this relationship and the commitment of the governments of Ghana, Tanzania, and El Salvador to the principles of PFG led to their selection for the program more than a desire to reap indirect diplomatic, economy, and security benefits.[11]

Moreover, PSD programs in these countries are often a small percentage of the overall U.S. foreign assistance program in country (see Table 3). In Tanzania, for example, well over 80 percent of all assistance is directed toward public health programs such as the President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative, and others. It

[9] African Growth and Opportunity Act (AGOA), "Country Info: Ghana," http://agoa.info/profiles/ghana.html.
[10] USTR, "El Salvador," April 18, 2014, https://ustr.gov/countries-regions/americas/el-salvador; USTR, "Honduras," April 29, 2014, https://ustr.gov/countries-regions/americas/honduras.
[11] Anonymous interview, Washington, D.C., February 24, 2015.

is, therefore, difficult to determine at a macro-level whether the observed good will (according to Gallup, 61 percent of Tanzanians had a positive view of the United States in 2014) toward the United States is a result of specific development projects or the overall level of assistance provided. Given that the majority of assistance in countries such as Tanzania meet basic human needs (public health spending), a number of individuals indicated that there is a fairly high likelihood that those programs contributed more to feelings of goodwill toward the United States that specific PSD programs.[12] Public perception as an indicator is ultimately a difficult measure given that it is susceptible to outside factors such as the broader foreign policy or international actions. In examining the public perception data presented in Table 2, one trend is particularly worth noting: the high popularity of the United States in the two African countries in 2009. Most observers attribute this to the election of Barack Obama as president, and as the numbers show this declined significantly over the course of his presidency.[13] One Kenyan columnist wrote, "When Obama was elected in 2008, he gained the status of a demigod of some sort in most of Africa. The years that followed, however, were marked by disappointment…Many Africans have been complaining that, as they say in Uganda, Obama 'didn't look' into Africa. He didn't give Africa any groceries."[14]

Private-sector development efforts are frequently hampered by broader country conditions, especially issues related to governance, the rule of law, corruption, and other policy and regulatory issues that affect the business and investment climate. This is especially true for U.S. businesses, which frequently avoid investments in countries deemed too risky from the perspectives of governance, rule of law, and corruption. The World Bank's *Doing Business* report ranks countries on the ease of doing business across 10 indicators in two broad categories: complexity and cost of regulatory processes and strength of legal institutions. In the 12 years that the report has been published, it his has become a frequently used measure for business climate. In 2009, Ghana was ranked at 87, Tanzania at 127, El Salvador at 72, and Honduras at 133 out of 181 countries surveyed that year.[15] Looking at these countries' rankings in the 2015 report shows that two countries—Ghana and Honduras—have improved their standings to 70 and 104, respectively. On the other hand, El Salvador and Tanzania both saw their rankings decrease to 109 and 131, respectively.[16]

Security benefits were particularly hard to identify from either a quantitative or qualitative standpoint. This is largely because the U.S. security relationship with the four countries varies tremendously. The United States has close relationships with both El Salvador and Honduras as a result of support provided during the civil wars that roiled Central America

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[12] Anonymous interviews, Washington, D.C., February 24, 2015, and February 26, 2015.
[13] Max Fisher, "This map shows that Obama is really, really popular in Africa," *Washington Post*, June 28, 2013, http://www.washingtonpost.com/blogs/worldviews/wp/2013/06/28/this-map-shows-that-obama-is-really-really-popular-in-africa/.
[14] Ibid.
[15] World Bank, *Doing Business 2009* (Washington, DC: World Bank, 2008), 6, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB09-FullReport.pdf.
[16] World Bank, *Doing Business 2015* (Washington, DC: World Bank, 2014), 4, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf.

in the 1980s and continued assistance in the face of growing counternarcotics operations. This close relationship ultimately led both countries to send contingents to support U.S. operations in Iraq following the fall of Saddam Hussein's regime in 2003. El Salvador deployed a small force of 380 troops that served alongside Spanish troops and were deployed from August 2003 until January 2009. Honduras deployed a contingent of 368 troops from August 2003 until May 2004.[17] In contrast, the U.S. relationship with Ghana (3,012 troops serving on UN missions) and Tanzania (2,278 troops on UN missions) is more structured around their ability to participate in UN and African Union peacekeeping missions, of which both are major contributors.[18] Ghana is the eighth-largest contributor to peacekeeping missions and Tanzania is the 13th.[19] Tables 4 and 5 show yearly security assistance provided to the four countries in the form of foreign military financing and international military education and training.

Table 4. Foreign Military Financing, FY2009–FY2015[a] (thousands of dollars)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Ghana	300	550	449	350	332	350	300
Tanzania	0	700	200	200	0	200	0
El Salvador	3,500	0	1,247	1,250	1,709	1,900	1,600
Honduras	0	0	998	1,000	2,848	4,500	3,100

[a] U.S. State Department, "Foreign Military Financing Account Summary," http://www.state.gov/t/pm/ppa/sat/c14560.htm.

Table 5. International Military Education and Training, FY2009–FY2015[a] (thousands of dollars)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Ghana	721	794	825	759	651	670	650
Tanzania	375	397	455	461	356	400	375
El Salvador	1,594	1,708	1,521	1,029	1,077	1,100	1,000
Honduras	329	777	765	774	626	650	750

[a] U.S. State Department, "International Military Education and Training Account Summary," http://www.state.gov/t/pm/ppa/sat/c14562.htm.

[17] Stephen A. Carney, *Allied Participation in Operation Iraqi Freedom* (Washington, DC: U.S. Army Center for Military History, 2011), 57, 65.
[18] United Nations, "UN Peacekeeping: Troop and police contributors," February 28, 2015, http://www.un.org/en/peacekeeping/resources/statistics/contributors.shtml.
[19] United Nations, "Ranking of Military and Police Contributions to UN Operations," February 28, 2015, http://www.un.org/en/peacekeeping/contributors/2015/feb15_2.pdf.

The Case of China and India

There is a broad sense that emerging powers such as China and India pursue PSD through a mercantilist approach that ignores the values commonly accepted among the international development community (rule of law, good governance, peace and stability).[20] As China's economy boomed over the first years of the twenty-first century, it looked increasingly to developing countries to provide it with the raw materials it needs for industry. This has led it to make significant investments in resource-rich countries for oil and other minerals; a number of sub-Saharan countries have benefited from these efforts, such as Angola, the Democratic Republic of the Congo, and Zambia. In order to capture these benefits, China and India pursue PSD largely through export-import financing, as well as other concessional loan provisions that support infrastructure development. While China does provide a growing amount of traditional foreign assistance (estimated at $7.1 billion in 2013[21]), it remains just one piece of how it engages with developing countries. India, for its part, provides $1.3 billion per year in development assistance, but also looks to engage with developing countries through trade and investment.[22]

China, in particular, has focused on providing financing for infrastructure investment across the developing world. On the one hand, this focus is welcomed given the significant financing gap that exists for infrastructure projects, especially in sub-Saharan Africa. Further local business and foreign investors frequently cite lack of infrastructure as a top barrier to growth. On the other hand, China's infrastructure investment frequently comes at a significant price. First, China's loans and financing is often guaranteed through the recipient country using oil, minerals, or other natural resources as collateral to secure the loan. Second, the deals that China strikes rely largely on giving contracts to Chinese construction and infrastructure companies, many of which are state owned that add a further layer of complexity. Although China claims to offer "no strings attached" aid (i.e., untied aid), it is clear that this is not entirely true. China has not imposed requirements for economic restructuring, or created human rights conditions to receive support. However, requirements for Chinese firms to be awarded contracts, or that Chinese workers be utilized for construction, often accompany assistance packages. India, for its part, pursues a similar strategy, with at least one scholar estimating that 70 percent of Indian aid is tied to

[20] Moses Naim, "Rogue Aid," *Foreign Policy* (March 2007): 95–96; Ben Bland and Geoff Dyer, "Clinton warning over aid from China," *Financial Times*, November 30, 2011.
[21] How much aid China provides on a yearly basis has been the subject of much speculation, because the government in Beijing does not publish comprehensive yearly figures. Estimates in the West vary widely, largely because China's definition of aid does not match that of the OECD's definition of "official development assistance." The $7.1 billion figure cited above is from a recent paper published by the Japanese International Cooperation Agency's Research Institute (JICA-RI). See Naohiro Kitano and Yukinori Harada, "Estimating China's Foreign Aid 2001–2013," JICA Research Institute Working Paper No. 78, June 2014.
[22] Note that while India has grown its development assistance program in recent years, it remains a significant recipient of aid in its own right. Lorenzo Piccio, "In latest Indian budget, aid spending dwarfs aid receipts," Devex.com, February 24, 2014, https://www.devex.com/news/in-latest-indian-budget-aid-spending-dwarfs-aid-receipts-82915.

the purchase of Indian goods.[23] In using this strategy, China and India have deployed a series of state-supported financial entities to deliver concessional loans to support development projects. In China, this includes the China Export-Import Bank and China Development Bank.

Both China and India eschew the sort of policy and regulatory reform work common in U.S.-administered efforts, based on both China and India's historical experience of external involvement in their own countries. But given that many of the companies operating abroad from these two countries are state-owned or quasi-parastatals, there is less need from a risk perspective of improving the business or investment climate to create attractive markets for companies. In terms of developing links between local economies, China has made large investments in local industries (largely oil and mining) that do provide significant economic benefits to the countries in question; the long-term sustainability of some of this growth is questionable, especially in light of the recent decline in commodity prices.

As with U.S. PSD efforts, it is unclear whether China and India receives significant present-day diplomatic benefits from their engagements in sub-Saharan Africa. Over the latter part of the twentieth century, however, China successfully leveraged its aid and investment to sway countries in sub-Saharan Africa to withdraw diplomatic recognition from Taiwan in favor of Beijing; indeed, it is generally a condition of Chinese aid and investment that countries not recognize Taipei. However, it does appear that one could draw a direct line between the recent surge in China's trading relationship with sub-Saharan Africa and its PSD efforts. Total Chinese trade with Africa has surged to over $160 billion in 2014, an increase from $12 billion in 2003. During this time, China overtook the United States to become Africa's largest trading partner. Indian trade has also grown exponentially in Africa, rising from $5.5 billion in 2000 to $72 billion in 2013.[24]

Deploying PSD in Support of Foreign Policy Goals

A central question of this report is when, how, and where should the United States deploy PSD in support of its foreign policy goals. As noted above, it is difficult to draw clear causation between good diplomatic, economic, and security benefits and U.S. PSD programs. At best there is correlation. But this is not to suggest that the U.S. government should abandon PSD as a tool to achieve either its foreign policy or development goals; far from it. Ultimately, the private sector is the engine of growth in the developing world—9 out of 10 jobs are created by the private sector, and the Gallup World Poll found that 29

[23] Rani D. Mullen, "5 Predictions for India's Development Cooperation under New Government," Asia Foundation, May 28, 2014, http://asiafoundation.org/in-asia/2014/05/28/5-predictions-for-indias-development-cooperation-under-new-government/.
[24] Persis Taraporevala and Rani D. Mullen, "India–Africa Brief," Indian Development Cooperation Research (IDCR) Project, Regional Brief no. 1, August 5, 2013, http://idcr.cprindia.org/blog/india-africa-brief.

percent of African men under the age of 35 plan to start a business in the next 12 months.[25] In spite of the difficulty of quantifiably measuring the economic or diplomatic benefits of these programs, it makes good development sense to continue to support PSD efforts—especially because this meets a demand side (that is, developing country need) request as opposed to one donors seek to impose. Regardless of whether it is possible to draw concrete quantifiable diplomatic, security, and economic benefits from U.S. private-sector development programs, it must remain a part of the toolkit this country uses to interact with developing countries on a bilateral basis.

What emerges from other countries' efforts in this area, particularly China, is the role that trade promotion, export financing, and other nondevelopment assistance approaches play in achieving these benefits. The Chinese have made effective use of their Export-Import Bank and the China Development Bank to achieve mutual benefits in developing countries with a particular focus on infrastructure financing. Between concessional loans and export buyers' credits, it is estimated that China provided approximately $11 billion worth of financing through these entities in 2013.[26] India's ExIm Bank has similarly expanded, especially in Africa, where it provided $4.3 billion worth of financing in 2013 or 53 percent of all its financing.[27]

China's and India's reliance on state-supported investment projects would augur for a greater focus on the use of similar instruments by the United States, especially the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank (ExIm). Both of these organizations have a direct mission to help U.S. business invest in projects in developing countries through a series of financial instruments. In 2013, OPIC provided $3.75 billion in a variety of financing support and held a total portfolio of $18 billion.[28] In 2014, the ExIm Bank provided a total of $20 billion in financing, of which $14 billion supports exports to developing countries. Of this, the ExIm Bank provided a record $2 billion in financing for U.S. firms exporting to sub-Saharan Africa.[29] Yet both U.S. agencies have been hobbled in recent years over whether Congress would grant a multiyear, long-term reauthorization.

It is also important to acknowledge that in some countries in sub-Saharan Africa, the competition is not between the United States and China, but rather with countries that have traditional trade and investment relationships on the continent largely through colonial linkages. In Tanzania, where U.S. investment and business exposure remains limited, the top owners of FDI stock in 2011 (most recent year available) were South Africa, the United Kingdom, Canada, Mauritius, and Kenya. As the *Economist* recently pointed out, China is

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[25] Magli Rheault and Bob Tortora, "At Least 1 in 5 African Youth Plan to Start a Business," Gallup World Poll, June 30, 2011, http://www.gallup.com/poll/148271/least-african-youth-plan-start-business.aspx.
[26] Kitano and Harada, "Estimating China's Foreign Aid 2001–2013," 23.
[27] Taraporevala and Mullen, "India–Africa Brief."
[28] Overseas Private Investment Corporation, *Annual Report 2013* (Washington, DC: OPIC, 2014), http://www.opic.gov/sites/default/files/files/OPIC_AR2013_final.pdf.
[29] Export-Import Bank of the United States, *Annual Report 2014* (Washington, DC: ExIm Bank, 2014), http://www.exim.gov/about/library/reports/annualreports/2014/.

“one of many” in Africa, and indeed, lags behind the United Kingdom, United States, and others in terms of foreign direct investment across the continent.[30]

There are numerous examples of countries where U.S. foreign assistance produced diplomatic, security, and economic benefits for the United States. South Korea is a particularly prominent example. From 1953 until it graduated from foreign assistance, South Korea received over $35 billion in aid from the United States. Coupled with a series of governments that sought to promote the economic development of the country, South Korea evolved into the 13th-largest economy in the world.[31] To be sure, it suffered for some years under authoritarian, military-backed regimes, but these eventually gave way to democratic good governance. South Korea is now a donor providing roughly $2.5 billion per year in foreign assistance; it is a key regional security partner of the United States in East Asia; and a growing role in international organizations. But this was a 50-year investment by the United States, which did not yield initial indirect benefits until much later.

Ultimately, it is difficult to think of PSD as a “widget” similar to a carrier battle group or another example of American power that could be deployed discretely to achieve a particular objective. Rather, as CSIS originally envisioned in its Smart Power report, the United States must think more holistically and deploy the full force of its power—hard and soft—in a strategic, “smart” way. Foreign assistance can play a catalytic role in creating the stability and security needed to produce broad economic growth. The case of South Korea demonstrates that the United States can achieve its objectives through the use of foreign assistance. Although this paper demonstrated that it is difficult to establish quantitative measures of diplomatic, economic, and security benefits to the United States from PSD projects, it by no means suggests that we should not pursue these. Quite the contrary; as the authors have argued elsewhere, the United States must do more to support improvements to the business and investment climate in developing countries. First, and foremost, this means renewed attention to good governance and rule of law. This also means a focus on addressing other barriers to investment, such as infrastructure and regulatory changes. Second, it means greater use of the trade and investment tools the United States has at its disposal but are currently underutilized, such as OPIC and ExIm Bank. These actions will likely not require additional funding, but they will require the political will on the part of the administration, Congress, and others to shift direction.

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[30] “One among many: China has become big in Africa. Now for the backlash,” *Economist*, January 17, 2015, http://www.economist.com/news/middle-east-and-africa/21639554-china-has-become-big-africa-now-backlash-one-among-many.
[31] Christopher Griffin and Patrick Christy, “Why American Foreign Aid Works,” Real Clear World, April 17, 2014, http://www.realclearworld.com/articles/2014/04/17/why_american_foreign_aid_works.html.

About the Project Director and Author

Daniel F. Runde is director of the Project on Prosperity and Development and holds the William A. Schreyer Chair in Global Analysis at CSIS. His work centers on leveraging American soft power instruments and the central roles of the private sector and good governance in creating a more free and prosperous world. Previously, he led the Foundations Unit for the Department of Partnerships & Advisory Service Operations at the International Finance Corporation. His work facilitated and supported over $20 million in new funding through partnerships with the Bill and Melinda Gates Foundation, Rockefeller Foundation, Kauffman Foundation, and Visa International, among other global private and corporate foundations.

Earlier, Mr. Runde was director of the Office of Global Development Alliances at the U.S. Agency for International Development (USAID). He led the initiative by providing training, networks, staff, funds, and advice to establish and strengthen alliances, while personally consulting to 15 USAID missions in Latin America, the Middle East, and Africa. His efforts leveraged $4.8 billion through 100 direct alliances and 300 others through training and technical assistance. Mr. Runde began his career in financial services at Alex. Brown & Sons, Inc., in Baltimore and worked for both CitiBank and BankBoston in Buenos Aires, Argentina. He received an M.P.P. from the Kennedy School of Government at Harvard University and holds a B.A., cum laude, from Dartmouth College.

Conor M. Savoy is deputy director and fellow with the Project on U.S. Leadership in Development (USLD) at CSIS. He joined CSIS in September 2011 as assistant director of USLD. At CSIS, he focuses on implementing and guiding USLD's research agenda. He has contributed to several reports, commentaries, and critical questions. He is the principal author of *Combating Global Poverty: Investing in the Governance and Growth Nexus* (CSIS, December 2013) and *Taxes and Development: The Promise of Domestic Resource Mobilization* (CSIS, December 2014). Prior to this, he worked in energy consulting and as a research associate at the Council on Foreign Relations (CFR) in Washington, D.C. At CFR, he focused on broad issues impacting U.S. grand strategy, the effect of emerging nations on U.S. foreign policy, as well as U.S.-Russia relations and NATO. In May 2010, he was selected as a fellow for the Manfred Worner Seminar. Mr. Savoy holds a B.A. with honors in history from George Washington University and an M.A. in international relations from Boston University.

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

1616 Rhode Island Avenue NW
Washington, DC 20036
202-887-0200 | www.csis.org

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