Stanford SOCIAL INNOVATION REVIEW

# Creating Value Through Uncommon Alliances

By Kris M. Balderston

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## The US State Department is redefining diplomacy and development

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FOR MORE THAN 200 YEARS, the US Department of State has translated among languages and cultures and ideologies. It's what we are good at. We seek to promote open-ended, two-sided dialogue in 220 embassies and consulates around the globe. Indeed, this ability to communicate across cultures has transcended government-to-government relations to promote mutual respect and understanding. Today this mission is no less true than it was in 1789, but as we progress into the 21st century we face tremendous challenges that require us to redefine the way we operate at the State Department.

Some motivating facts: One out of every three people in the world lives on less than $2 a day. Natural resources such as oil, water, and food continue to decline, while the global population is estimated to top 9 billion four decades from now. Each of these trend lines affects US economic and national security as well as global prosperity. Yet there are opportunities amidst these challenges. For the US Department of State, there is the opportunity to create uncommon alliances among diverse actors to build more prosperous, inclusive, and stable societies. For that reason, under the leadership of Secretary of State Hillary Rodham Clinton, we are transforming the way the United States conducts diplomacy and development to enable real solutions to critical global challenges.

Public-private partnerships are central to this strategy; they recognize the rising importance of nontraditional development actors and the shifting investment flows to the developing world. In the 1960s, official development assistance represented about 70 percent of capital flows into developing countries. Today, that number is just 13 percent. The rest originates from the private sector—from increased trade and capital flows, domestic resources, and remittances. As the proportion of official development assistance shrinks, the need for outside-of-the-box thinking and collaboration grows.

Secretary Clinton created the Global Partnership Initiative (GPI) at the State Department to serve as the entry point for collaboration between government and the private sector. At GPI, we strive to be the lead translator, decoding the language of government for the private sector, nonprofits, philanthropists, diaspora communities, and civil society. Since launching in 2009, we have worked with more than 800 partners.

As the special representative for Global Partnerships, I have traveled around the world listening to various stakeholders to find out how we can best work with others to achieve our foreign policy objectives. Often you'll find groups working side by side on similar issues in the same community on separate programs guided by different funding mechanisms. This leads to a tremendous amount of waste and duplication of effort as well as projects with a limited life span. We want to change that. We need to leverage and align the assets of multiple partners to co-create solutions to critical global challenges, such as climate change, economic inequality, and hunger.

ILLUSTRATION BY YAREK WASZUL

**KRIS M. BALDERSTON** serves as the special representative for global partnerships at the Global Partnership Initiative within the Office of the US Secretary of State. He has helped to create a new model of public-private partnership for diplomacy and development and launched the Accelerating Market-Driven Partnerships, Global Alliance for Clean Cookstoves, International Diaspora Engagement Alliance, and Partners for a New Beginning.

### SHIFTING FROM AID TO INVESTMENT

In November 2011, Secretary Clinton announced a shift in US development assistance from donor-driven aid to catalytic investment. These investments aim to reduce the risks for companies doing business in developing countries; help governments and domestic financial institutions expand credit to local, small, and medium enterprises; and address the structural and technological barriers for governments in developing countries.

Companies such as PepsiCo are reformulating business strategies to create market-driven models that tie financial success to social and economic outcomes. In Ethiopia, the beverage and snack maker is working with the US Agency for International Development and the UN World Food Programme to help 10,000 Ethiopian chickpea farmers more than double their output by using irrigation and advanced agricultural practices. The program will help farmers earn more, and the chickpeas will be used in nutrient-rich, ready-to-use supplementary foods that alleviate malnutrition. Other leading firms, such as Kraft Foods, Unilever, Coca-Cola, Levi Strauss & Co., Pfizer, and Virgin are making investments in sustainable value chains and innovative inclusive business approaches.

Simultaneously, private investors and investment banks are tying profits to social outcomes through high-impact investment funds. It's a trend that analysts estimate could reach between $500 billion and several trillion dollars over the next decade. Growth in this sector is due in part to the rising consumer class within emerging markets, representing some 1.4 billion people with per capita annual incomes between $3,000 and $20,000. This group represents a market valued at approximately $12.5 trillion globally. Enthusiasm for investments with a social and environmental impact is gaining ground among mainstream financial institutions. Morgan Stanley, for example, recently launched an Investing with Impact platform.

In April 2012, I had the pleasure of hosting the Secretary's Global Impact Economy Forum at the State Department. The forum brought together more than 400 senior representatives from business, investment banks, philanthropy, nongovernmental organizations, and academia to discuss how to tackle major global challenges while creating a global economy that can yield value for business, people, and planet.

## OVERCOMING CHALLENGES

Over the course of two days, we heard that one of the greatest challenges for businesses and investors is the paucity of mechanisms for information collection, sharing, and collaboration at the global and local level. There is also a need for better and more widespread utilization of tools and metrics that enable the private sector to demonstrate the link between financial and social/environmental value creation. The lack of market research is a serious barrier to market entry in many emerging economies, where there is often a lack of on-the-ground knowledge or networks to leverage. Yet such research is expensive to undertake and requires inputs from multiple stakeholders; moreover, solutions developed for a core demographic in one market often don't translate to the same demographic in another market.

Another barrier is lack of coordination and alignment. There are extraordinary people doing extraordinary work in the world, but they rarely coordinate to get far-reaching, positive impact. Tremendous power can result from aligning resources of institutions and individuals. The Carbon War Room (CWR), established by Sir Richard Branson, is a great example of how a group of innovators are addressing a coordination gap to save 17 gigatons of carbon by 2020 through market-driven solutions. Maritime shipping moves 90 percent of the world's goods and emits more than a billion tons of emissions. CWR decided to publish data about the fuel economy of various ship models and created an efficiency rating system, which is expected to help the shipping industry save up to $70 billion of fuel a year and to reduce pollutants by up to 30 percent.

Access to the right capital at the right time is another hurdle that many businesses face when trying to make the leap from idea to implementation. Private investors play a pivotal role in spurring sustainable development by providing access to capital and migrating best practices to projects that will have impact on economic growth and other social outcomes. To unlock large pools of capital for investment, however, deals must make business sense for investors.

As businesses try to figure out how to harvest profits at the intersection of business and society, philanthropy and government should consider providing the risk-taking capital to create new business models, fund early-stage endeavors, and help make them investment ready. This type of capital also has a role to play to promote the financial and management skills needed to make sustainable investments. To use philanthropic dollars in this way, grantmakers need to understand what investors—who provide the next stage of funding—require so that enterprises can become viable in the long haul.

And finally, another hurdle is ensuring that the correct policies and regulations and tax codes are in place to incentivize sustainable, long-term investments that yield sustainable returns. Because these investments necessitate a more farsighted perspective, they facilitate solutions to issues that jeopardize profitability or performance, such as safety hazards, environmental concerns, human rights abuses, and unethical behavior.

## RESPONDING TO THE CALL

To respond to these barriers, we are launching an initiative that will facilitate market-driven solutions to important economic, social, and environmental challenges. The new public-private initiative, called Accelerating Market-Driven Partnerships, or AMP, will provide the platform for leading organizations to access market research in key sectors, identify potential investment opportunities in those sectors, co-create solutions to shared global challenges, and showcase how business, government, and civil society can promote lasting solutions to critical global challenges.

Although the partnership is a global initiative, the first launch country is Brazil, where economic growth, social and demographic shifts, and an increasing emphasis on natural resource protection have combined to create an environment for innovation and investment. The pilot is initially focused on creating investment opportunities to promote sustainable cities in Brazil. Later this year, the US Department of State will lead an Innovation Delegation of investors and companies to identify potential investment opportunities around sustainable cities.

AMP represents a new paradigm for engagement facilitated by government, but not implemented by government. It leverages private sector-driven investments to promote sustainable development outcomes. It draws on the risk-taking capital of philanthropy to gather data across sectors to diagnose market inefficiencies and build the capacity of enterprises to make them investment ready. It is a partnership initiative that will be fundamental to the future of international development and US diplomacy. ■