



White Paper: Creating Shared Value in U.S. Foreign Assistance

U.S. foreign assistance agencies have an opportunity to transform. By reimagining their engagement with American businesses, these agencies can create a dynamic ecosystem where corporate innovation, capital, and expertise are harnessed to advance development objectives. Drawing on our experience at I4DI working with private sector partners and conducting a series of comprehensive evaluations, we see a path forward that is not just about reform but about unleashing new possibilities for sustainable development. Through these targeted conversations and direct engagement with multinational corporations, it is clear that businesses value the technical expertise and convening power of U.S. foreign assistance agencies, but were deterred by complex processes, slow decision-making, and financing models that failed to align with private sector investment cycles.

We do not advocate for the privatization of foreign aid, but rather want to advocate for a structural shift that ensures U.S. foreign assistance agencies treat businesses as essential partners in sustainable development. The recommendations presented here go beyond incremental process improvements and propose a fundamental rethinking of the private sector engagement model—one that prioritizes agility, investment-driven collaboration, and long-term structural alignment between the U.S. government and business actors.

This paper invites stakeholders to explore a refreshed perspective—one that is optimistic, collaborative, and anchored in real-world successes—to build a stronger, more agile partnership model between the public and private sectors.

Challenges in Private Sector Engagement in the Prior Model

1. Structural Barriers to Private Sector Engagement in U.S. Foreign Aid - While agencies like USAID promoted private sector collaboration, its organizational design and operational culture still treated businesses as external actors rather than core partners in achieving development outcomes. Unlike agencies such as DFC or MCC, where private sector engagement is embedded into strategic decision-making, USAID's structure was siloed, with multiple bureaus engaging businesses through disconnected mechanisms.

The absence of a cohesive, investment-driven framework results in duplicated efforts, fragmented engagement, and lost opportunities for impact. Businesses engaging with USAID often struggled to identify clear pathways for collaboration, and the agency's lack of strategic alignment between funding and private sector priorities prevented long-term partnerships from

taking root. USAID made an effort to address these structural barriers by creating the Private Sector Collaboration Pathway (PSCP) in 2023, which aimed to improve flexibility and user experience for businesses seeking to engage with USAID, but the bureaucratic burdens persisted.

Additionally, the single private sector point of contact (POC) model inadvertently became a bottleneck. Many companies had to navigate their engagement through a single designated official in Washington, who often managed multiple corporate relationships simultaneously. A business inadvertently became hostage to how well this POC was able to overcome internal bureaucratic inertia, politics, and sometimes antipathy towards businesses whose bottom line focus was misunderstood for greed. This resulted in slow response times, information bottlenecks, and a lack of direct connection between businesses and overseas missions, which ultimately hampered effective collaboration.

2. A Centralized Budget Model That Undermined Mission-Level Agility - U.S. foreign assistance agencies have relied on centralized budgeting and project approval processes that disconnect top-down funding decisions from mission-led implementation. Although overseas missions are tasked with designing locally-owned solutions, they must contend with rigid, Washington-driven funding structures that are slow and misaligned with private sector needs. This misalignment often led to missed partnership opportunities, shifting priorities, and unpredictable funding cuts that frustrated private investors accustomed to more agile investment cycles.

3. Cumbersome and Rigid Engagement Processes - Even when businesses attempted to work with agencies like USAID, they encountered bureaucratic delays, complex compliance requirements, and slow decision-making cycles. The co-creation process, while designed to encourage collaboration and build trust, often took years to complete, forcing businesses to pursue alternative partnerships instead.

Additionally, these agencies had limited engagement tools—largely based on traditional grants and procurement models—and failed to offer the flexibility and speed needed to match private sector investment timelines. Many businesses opted out of working with these agencies altogether due to the high administrative burden and uncertain return on engagement.

4. A Limited Toolbox for Private Sector Financing - A fundamental challenge in U.S. foreign aid has been the lack of fit-for-purpose financial mechanisms to attract and de-risk private sector investment. While agencies like the DFC and IFC offer financial tools such as loan guarantees, concessional financing, and blended finance models, traditional foreign aid institutions, including USAID, relied heavily on grants, contracts, and technical assistance—approaches that do not align with private sector investment models.

This reliance on rigid, risk-averse funding structures limited the U.S. government's ability to mobilize large-scale private capital, particularly in critical sectors such as climate resilience, agriculture, and infrastructure development. The absence of scalable co-financing mechanisms meant that businesses had little incentive to align their capital with U.S. foreign assistance

priorities. For U.S. foreign aid to remain competitive and effective, it must modernize its financial instruments by expanding risk-sharing mechanisms, introducing performance-based financing, and aligning investment incentives to unlock greater private sector participation in sustainable development.

Ideas for Discussion Based on I4DI's Experience and Evaluation Work

Drawing on our extensive experience and prior evaluations, several ideas emerge for rethinking U.S. foreign assistance in its engagement with the private sector:

- **Enhanced Collaboration Mechanisms:** How might decentralized engagement models, such as regional relationship management teams, facilitate more direct and responsive interactions between businesses and local mission teams?
- **Flexible Financing Instruments:** What innovative financial tools can be developed to complement traditional funding, such as performance-based financing or blended finance models, that are better aligned with private sector investment cycles?
- **Realigned Organizational Structures:** Could a shift in organizational culture—from a bureaucratic, one-size-fits-all approach to a more agile, mission-driven model—unlock greater synergy between U.S. agencies and business partners?
- **Measurable Impact Metrics:** In what ways can we incorporate clear, quantifiable metrics to track private capital mobilization and development outcomes, ensuring that reforms are not only transformative but also accountable?

These discussion points underscore the potential for a reimagined framework that is not bound by past constraints but is instead built on lessons learned and forward-looking strategies.

Key Recommendations for Structural Reform

To transform U.S. foreign assistance agencies into more effective private sector partners, they must move beyond process adjustments and adopt a structural, investment-oriented approach to business engagement.

1. Modernize the Private Sector Financing Model

- Shift the federal funding role from one of being a direct funder to one as an investment catalyst, using financial resources to leverage private capital rather than replace it.
- Establish a Private Sector Catalyst Fund to support co-investments with businesses in strategic development initiatives aligned with government policy, available to agencies to form partnerships on top of their existing funds.
- Expand the use of performance-based grants and contracts, guarantees, and blended finance tools to de-risk private investment in frontier and emerging markets.

2. Decentralize Decision-Making

- Replace the single POC model with a decentralized relationship management system connecting foreign assistance missions and corporates, allowing foreign assistance missions to directly engage with businesses rather than relying on a single intermediary in Washington.
- Give overseas foreign assistance missions greater budget autonomy to structure and launch private sector partnerships independently.
- Create a Consultative Multi-Partner Body to facilitate structured and transparent engagement between foreign assistance agencies and private sector actors to facilitate early-stage collaboration and alignment of investment priorities and funding cycles between U.S. agencies and industry partners.
- Pilot agile financing models that enable real-time co-investment with businesses and establish fast-track approval processes to align with private sector investment timelines.

3. Introduce Measurable Metrics for Success

- Track private capital mobilized per U.S. dollar invested.
- Track jobs created or supported in the U.S. and the partner country for dollars invested.
- Significantly reduce timelines for co-creating and approving public-private partnerships to three months or less.
- Ensure foreign assistance strategies explicitly integrate business engagement models.
- Track diplomatic engagement, policy leadership, and strengthened international alliances.

The previous model of private sector engagement was structurally outdated and prevented U.S. foreign assistance agencies from leveraging business as a full development partner. Rather than treating private sector actors as adjunct contributors, foreign assistance agencies must embed business engagement into their strategic, financial, and operational frameworks.

By integrating private sector engagement into core programming, decentralizing budget authority, expanding financial instruments, and establishing accountability metrics, U.S. foreign assistance can become a more effective, investment-driven partner in global development. These reforms would help far more businesses recognize the tangible value of aligning their investments with U.S. foreign assistance priorities, and make it much easier for them to do so.