Alternative Futures for International Development

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The four futures for international development presented here were created by Change Management Solutions in July 2012 for a development organization engaged in democracy promotion to help its staff to reassess its strategies and priorities in a rapidly changing global environment. The purpose of *Alternative Futures* exercises is to allow decision-makers to look beyond the immediate problems facing their organizations and the markets they serve and develop a long-range view. They are intentionally designed to move decision-makers out of their comfort zones and cope with situations in which what they perceive to be their competitive advantages are compromised. Doing so challenges core beliefs and understandings of who their clients are and how their organizations should best serve them. In other words, in a good *Alternative Futures* exercise, sacred cows will be gored!

The four of the scenarios presented were written from the vantage point of the year 2017 with the year in which the retreat took place, 2012, expressed in the past tense. This change in timeframe is intended to help participants to suspend belief and deal with the problems placed before them without being encumbered by immediate issues or problems.

Organizing the Process

Twenty-four employees from all levels of the organization were divided into four teams with equal numbers of senior, middle, and entry-level staff assigned to each. Each group was asked to answer the following four series of questions over the course of a three-day retreat:

1. What are the priorities and primary targets of international development in your future, how are they funded, and what are the development goals and expectations?
2. What is the role of civil society in development strategies in this future, how are its relationships with the public and private sector defined, and how are those relationships managed and funded?
3. If your organization did not exist and you were asked to create it in the future environment you were given, what would it do, how would it be organized, and how would it be funded?
4. Coming back to 2012, what changes should your organization begin to institute now to prepare for that future model, what resources and capacities should it start to develop to ensure its success?

One of the intended outcomes of this exercise is to identify those strategies that would apply in all four future; the so-called "safe bets." The other is to determine how to identify the "forks in the road" that would indicate that strategies unique one future need to come into play and add them to the organization's ongoing market monitoring.

Creating and Using Scenarios

While scenarios can project far out into the future, fifteen years or more, rarely are such long-range projections justified, especially for public policy organizations whose short-term objectives, the regions in which it works, and the kinds of services it would provide are driven, in part, by wildcard events well beyond their control, such as the September 11 attacks or the Arab Spring uprisings. The further out we project, the more "wildcards" can arise to challenge the fundamental assumptions of the scenarios. We chose five years for these scenarios because of the political uncertainties of looking too far past the 2016 elections in the U.S., the U.K., France, and possibly Japan.

The scenarios in this paper are written as if it were now 2017 and we are looking back over the previous five years to provide logical explanations of how international development reached the outcomes described in each of the four futures. This technique allows participants to suspend disbelief and analyze potential futures that may be counter to their own perceptions or vested interests in relative safety. By writing from the future, we can face our demons and gore sacred cows without having to justify challenges to conventional wisdom.

A product of game theory, *Alternative Futures* is intended to force participants outside their comfort zones by making them cope with choices they would prefer not to make. Naturally, there are those who will resist doing so. For that reason, scenarios must be *plausible* alternative futures based on credible projections from current events and market conditions that allow decision-makers to plan for multiple future outcomes in a single process. There should be wildcards or dei ex machina that cannot be logically explained by the narratives. *Alternative Futures* are intended to be strikingly different in some crucial ways from the world that decision-makers currently face and must be distinctly different from each other. However, they are not the result of speculation nor designed to provoke a specific conclusion.

By examining different and sometimes undesired outcomes of seminal events and trends defining their future as if they have already happened, participants in a scenario process are required to develop strategic responses and suggest different business models that shift power within the organization or among its current partners and competitors, alter competitive advantages, and affect other radical changes without personal biases of possible vested interest. *Alternative Futures* are intended to be uncomfortable and force decision-makers to face challenges that they would otherwise choose to dismiss or ignore. Yet, the process itself provides participants with a safe environment in which to evaluate potential future market conditions that could be extremely detrimental to them or their organizations personally, professionally, or financially.

Those who have never participated in a scenario process might find the exercise challenging at first because, in contrast to most planning processes, discussions do not revolve around a single specific forecast or preferred outcome. Because the primary purpose of scenarios is to challenge conventional thinking, the scenarios presented are intentionally provocative. To prevent participants from intentionally or unintentionally creating futures that play to an organization's current strengths or that ensure the success of their existing products or services, it is crucial that the scenario process begins with an independent, objective analysis of the environment in which the futures are cast. Change Management Solutions conducted an extensive literature search and held numerous interviews among development practitioners, policymakers, futurists, and funders among government agencies, nonprofit organizations, and private sector contractors in addition to meetings with all levels of the client's staff.

The focus of any analysis based on *Alternative Futures* should not be the participants' organization or its current product and service offerings. Doing so often leads to thinking in which the organization, *as currently defined and managed*, is a solution is search of a problem. Instead, participants of an *Alternative Futures* process need to look past their organizations' current market positions, products, and staffing and instead focus on how the markets and constituents they serve could change to compromise their current plans, position, and revenues. For the international development profession, the scenarios in this report envision different futures for international development generally and not the issues that their organization addresses specifically: the role of democracy building, economic growth, or institutional development. Participants are expected to draw from these narratives the potential opportunities or threats to the services they provide.

Creating Scenarios

Because there are unlimited possible combinations of trends and issues that could shape the future, scenarios must be limited to a manageable number, usually four, for the process to be manageable.

Because the client's greatest concern was excessive dependence on government funding, public sector development aid declines significantly in all of the futures presented, not only in the U.S., but around the globe. In these futures, all of the current major players, USAID, UKAID, GIZ, JICA, and the international development banks experienced budget cuts of as much as 25 percent in real terms by from 2012 to 2017. Emerging donor nations including China, Brazil, Poland, and Turkey were increasing their development spending but only regionally and in their very limited self-interests and not by enough to offset the substantial declines by the major donor agencies. Thus, only private sector funding and civil society organizations' financial support were available to offset public sector cuts.

What would happen to international development under such circumstances? Would the global development activity simply shrink by 25 percent leaving less ambitious programs? Or in the absence of traditional public donor agency support and leadership, would new funding sources emerge that necessitated creating new business models for development organizations to function and possibly grow? Having established the critical themes for the scenarios, the next step was to determine how the market for development assistance would respond based on research on several global trends.

Therefore, the futures here were focused on the two sets of tradeoffs from which we created four distinct futures:

Trade-off One:

Either national donor agency funding would be replaced by private sector spending through corporate social responsibility (CSR) programs and other direct interventions

OR

The both international and local nonprofit organizations would fill the breech through greater direct control and financing of development initiatives.

Trade-off Two:

National donor agencies, which would remain dominant players, would remain independent of each other, as now, but specialize either by region or by issue.

OR

National development agencies would try to collaborate and coordinate more with each other in order to benefit from economies of scale and reduce redundancy in their programs.

The relationships among the scenarios are illustrated as follows:

The descriptive names were added after the scenarios were written to help participants reference them more easily. All four strategies would profoundly influence the development profession by changing the scopes, objectives, and funding mechanisms for development projects and policies. They would also change the role of civil society organizations even more, especially in multilateral partnerships, as the perceptions of the roles of the state and civil society in managing the economic and social environments differ widely in North America, Asia, and Europe.

Of course, other themes all found their ways into our narratives to ensure that the effects of these other trends were addressed by the participants and were reflected in the strategic plans they developed. To suggest just a few:

Continued expansion of democracy vs. Retrenching autocracy

Contracting government spending on development vs. Reinvigorated public spending

Continued dominance by the U.S and Europe vs. Rise in emerging nations

Commercialization of development as export generator vs. International political policy focus

Because these trade-offs were expected to play important roles in shaping the future, they appear in the scenarios but as minor themes that need to be considered by the participants in their responses.

Selecting Scenario Drivers: Looking through a macroscope

For the purpose of the *Alternative Futures* exercise the outcomes from the identified trends often have been exaggerated, with specific drivers playing outsized roles. This again is intentional. While we all realize that the actual future will not be so black-or-white and will, most likely, possess elements of all four futures, by isolating and magnifying specific important trends the participants could focus on the importance of each and how all development practitioners – not just their organization – should respond.

The drivers identified for these scenarios serve not only as a catalyst for future projections. They also set the boundaries for discussion. While the conclusions and recommendations of the analysis itself are open to debate, once accepted, participants cannot dismiss them simply because the particular outcome is inconvenient, not anticipated, or not consistent with conventional wisdom or their own personal beliefs. As already noted, conventional wisdom is an intended victim of the scenario process.

Throughout this strategic retreat several participants resisted accepting these scenarios. Many of the participants in August 2012 were confident that many of the events described could never happen at all. But if they did, they certainly could not happen by 2017. In hindsight, you will note that these futures were quite prescient, having included the Russian invasion of Ukraine and annexation of Crimea in 2014, the sharp cuts in USAID's budgets that resulted from Republican majorities in both houses of Congress in 2016, and the emergence of China and Russia as spoilers to Western development objectives. Ah, had they only taken this process more seriously, they would have been better prepared for what would come.

Never say, "Never".

Scenarios face two common criticisms. The first is that the outcome presented "just isn't likely to happen." Scenarios need only be *credible* and *possible* – not probable. Leave probabilities to betting parlor. History offers a long list of experts who could bring themselves to consider a future different from a present in which they prospered. From Louie B. Mayer, the head of MGM Studios, who famously dismissed television as a fad, predicting that "people will soon become bored with staring at a plywood box," to the CEO of Digital Equipment who promised "there will never be a market for computers in the home," and, as every Baby-Boomer would add, to Decca Records producer, Dick Rowe, who famously predicted that "the Beatles have no future in show business" because "guitar groups are on their way out," we should have learned at least one lesson: Never say "Never." In development, the countless Middle East experts as late as 2010 offered numerous theories as to why popular overthrows of Arab autocracies, à la Eastern Europe, could never happen.[1] Similarly, how many Soviet experts would have bet even as late as July 1989 that the Soviet Union would cease to exist in less than 18 months? Even after the process began with the Solidarity strikes in Poland in 1988, no one anticipated that all of the communist regimes in Eastern Europe would collapse in less than three years.

The future is closer than it appears

The second criticism is that the future presented, while possible, could not possibly occur within the limited five-year timeframe presented. However, examples of rapid acceleration of discernable trends are easily available.

As late as 1940, the United States, which was politically dominated by isolationists, did not even rank in the top 20 military powers in the world and was easily dismissed by many as politically, financially, and militarily incapable of building sufficient capacity in time to influence the outcome of World War II.[2] In another example, as late as 1990 most analysts were still looking to Japan as the greatest threat to American economic supremacy. Suggestions that China should be viewed as the real challenge were widely and laughingly dismissed.

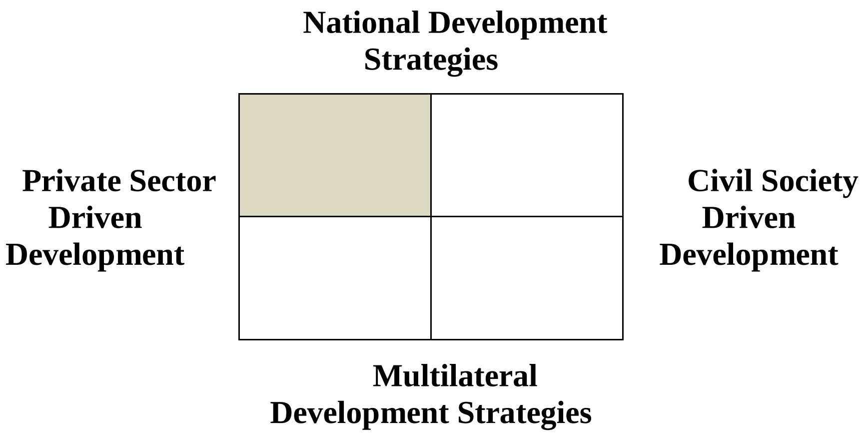
The lesson from history has always been, "The future is closer than it appears."

And now, let us travel non-stop from 2012 to 2017 and take a long look back.

[1] Diamond, Larry, "Why are there no Arab democracies?", *Journal of Democracy*, vol. 21, no.1, January 2010, pp. 93-104

[2] Kerns-Goodwin, Doris, *No Ordinary Time*, Simon and Schuster, 1994

Scenario I: Dividing the Pie



In response to the continued economic malaise and pressure to balance budgets without sacrificing domestic social safety net programs, all developed nations dramatically cuts their development budgets over the past five years. In 2012, Italy announced that it would only fund its own programs and not supranational agencies. France soon followed. In the U.K., DFID announced that it would manage its cuts, of up to five percent per annum through 2015 by reducing its assistance to all but the poorest nations, cutting staff, and funneling more funds through international agencies and NGOs, leading to charges of "outsourcing" international development. The Canadian International Development Agency (CIDA) slashed development spending in its 2011-2012 budget by 8 percent and then by 10 percent in 2013-2014 citing a change in strategy by Ottawa to "to forge ties with middle-income nations and focus on commercial development" By 2017, CIDA's budget was 20 percent below 2011 levels.[3] The Japanese Diet, citing "severe economic and financial pressures," made successive cuts of 10 and 15 percent in 2012 and 2013 before instituting more moderate decreases of four and five percent in 2015 and 2016, forcing the Japanese International Cooperation Agency (JICA) to scale back all of its activities outside of Asia.

In the U.S., bowing to xenophobic political backlash from continued high unemployment rates, the Congress vowed to "take care of Americans first" by cutting USAID's budget by 12 percent from 2012 to 2014. A handful of key Republican Senate victories in 2014 left both houses of Congress in the hands of the GOP. Over the next two years, Tea Party members of Congress managed to undo much of the USAID staffing increases that the Obama Administration pushed through in 2011 and 2012 and shifted more development funding and staffing to the Defense Department resulting in further cuts to USAID's budget. With the lame-duck Obama Administration committing most of its reduced political capital to defending the Affordable Healthcare Act, cuts in development spending went unchallenged.

The U.S. was not alone in development spending cuts. The continued malaise in Europe and growing nationalism led to steep cuts in spending both in major European capitals and in Brussels. With less money all round, donor countries began to specialize both regionally and programmatically.

In an effort to "leverage" fewer dollars, both USAID and the State Department focused on sponsoring public-private partnerships (P3s) and joint ventures between U.S. multi-national corporations and national and municipal government agencies in beneficiary countries. Under these new strategies, local governments, instead of being recipients of U.S. aid, were now expected to bring

[3] In fact, DFID, now called UKAID, CIDA was eliminated completely in early 2013, folding what was left of its reduced budget into the Foreign Ministry, whose core objective – promoting Canadian business interests abroad – was viewed as contrary to international development. (Author's note, July 2012)

domestic funding to USAID projects to ensure "local skin in the game." The only exception to this strategy was in Latin America, where U.S. policy continued to tie foreign aid to domestic anti-drug trafficking activities, especially in Central America and the Caribbean. While EU members focused their assistance spending on helping industry in developing markets to meet EU product standards, China, facing growing shortages of natural resources, began offering – not development assistance – but venture capital to develop infrastructure for extractive industries in exchange for guaranteed shares of production and long-term mineral rights. In a mirror image of China's approach, Brazil used its growing economic power to build markets for future export opportunities. By 2017 Brazil had become the largest donor in the Andean region focusing on labor intensive industries such as agriculture and apparel that would become markets of Brazil's growing business services and industrial goods industries.

Canada was not alone in using development to achieve commercial and political self-interests. Illustrative of these more targeted and more blatantly self-interested development strategies is that of Poland. Until 2004, most of Poland's development assistance was in the form of multilateral aid. But with its growing economic power, Poland became more independent. With the Development Cooperation Act of 2011, Poland began to carve out its own development strategy. By 2017, Poland, which is now challenging Spain as the fourth largest economy in Europe, has become a major international development player in Eastern Europe by focusing all of its limited resources on its six "Eastern Partnership Countries": Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. While claiming its development mission is to "promoting and consolidating democracy and respect for human rights in the spirit of the Millennium Development Goals, helping to create modern and efficient state institutions, and promoting their sustainable social and economic development" mostly among its "near neighbors," Poland's real strategic goals were to increase economic ties between it and the former Soviet republics in the Baltics and Caucasus as a counter-weight to reemerging Russian nationalism and Moscow's efforts to influence the region. The primary goal of Poland's development aid was to create sufficient economic interdependency among private sector firms in the region to make returning to the Russian orbit commercially unacceptable while creating the civil society organizations to provide oppositional voices in the political spheres.

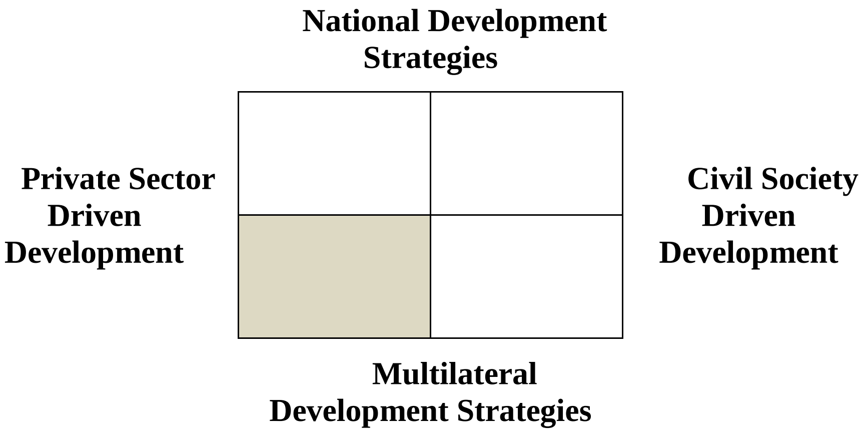
Like a drug dealer building an addict's dependency, Russia provided or withheld access to oil and natural gas supplies to regain its former economic and military influence in these same countries. In 2013, Russian troops, claiming to support the legitimate government of Belarus, established permanent bases in and around Minsk. Emboldened by the added security muscle, the Lukashenko government shut down civil society organizations and imprisoned many of their leaders. In 2012, Russia essentially bribed Moldova to reject Western energy deals and infrastructure investments with promises of subsidized natural gas prices and debt relief assistance through the Russian-dominated Eurasian Economic Community Bail-out Fund. In 2014, despite outraged diplomatic protests from EU capitals, President Putin provided Moldova with "security assistance" to protect the natural gas pipeline from what Western sources claimed were fabricated terrorist threats. The move essentially encircled Ukraine with Russian troops. With President Yanukovych's acquiescence, Russia brought eastern Ukraine, particularly Crimea, back into the Russian orbit through increased naval presence in Ukraine's Black Sea ports. By 2017, Ukraine found itself torn by civil war with the eastern half of the country supporting the pro-Russian Party of the Regions and the western half supporting a coalition of undisciplined pro-democracy parties promoting greater integration with the European Union.

In Africa, the idea floated in 2012 that China's approach of investing in natural resources would complement U.S. and other Western agencies' effort to build institutional capacities proved untenable. African government officials, enriched by Chinese bribes, saw little value in creating more transparent government agencies. Despite Nigeria's poor example, most nations in Sub-Saharan Africa favored extensive state-ownership in extractive and energy industries. China, of course, supported this lack of transparency. Western development efforts, which focused on microfinance and MSME development, did not bring enough critical economic mass to these economies to offset Chinese influence. Besides most of the small and micro enterprises being created were either suppliers to or customers of the industries that dominated the economy, preventing the business sector from breaking free of the crony capitalism that continues to undermine transparency, competition, and innovation in the business environment. Ironically echoing the Cold War debate regarding China in the 1950s, "Who lost Africa" has emerged as a major campaign theme heading into the 2018 American mid-term elections.

The U.S. compelled to draw a line in the sand in the MENA region to continue to contain Iran and rebuild oil sectors crippled by the unrest from the Arab Spring, provided both economic and military assistance to the countries that threw off autocratic regimes. However, the new leaders of these countries had no experience in governing democratically and, like Romania and Hungary before them, they saw democracy as harnessing the force of the state for good. The notion that businesses and social organizations should be allowed to govern themselves was seen as a long-term future end-point to which the economy should move and not the foundation for the economic environments being created at the time. The governments that emerged were almost as – if not more – centralized as those they displaced. While the leaders might have had the best of intentions, in practice at the grassroots level the inevitable rent-seeking by government agency gatekeepers soon reemerged. Western firms, whose deep pockets were needed to finance the rebuilding and modernization of oil facilities, proved to be the disruptive force. USAID subsidies in the form of P3 "support funding" only allowed U.S. firms to be inefficient in their investing and tolerate corruption. With the fall of the Assad regime in Syria in 2015, U.S. efforts, whose main regional objective was to isolate Iran – not bring democracy to it – focused on stabilizing that country and preventing Lebanon from becoming a launching pad for counter-revolutionary activity and prevent Israel from using the political confusion in Beirut as an opportunity to attack Hamas strongholds across its border. Continuing its long-held belief that greater institutional transparency follows economic development, development efforts focused more on political stability and enterprise development than on institutional realignments in Syria, Egypt, Iraq, and the Arabian Peninsula. Ironically, the fates of the Maghreb states, which gave birth to the Arab Spring, were a secondary concern. Only oil-rich Libya received any Western attention. This came from France and Italy, both of whom have traditions of much more activist roles for government in both the private sector and civil society

In Asia, with the U.S. focused on its military "Pacific Pivot," donor funds were too limited to play a significant role in international development. With the notable exception of the Philippines, the U.S.'s primary Asian development strategy was to support regional development agencies. The past five years have witnessed the emergence of China, Japan, South Korea, and Australia as the primary development leaders in the Pacific. Australia, the only one with Western public and civil society institutions, remains the weakest of the four. Each of the three "Asian Overlords" used international development to counter others' regional trade advantages. This is especially true of Japan, whose poor natural resource base makes it particularly vulnerable to trade shifts. A regionally more activist Japan, however, renewed old regional fears in South Korea and China.

Scenario II: Sharing the Pain



With development agencies in most of the advanced economies facing serial budget cuts from 2012 through 2015, the uses of public sector resources to support international development was very different in 2017 than they were back in 2012. The large donor agencies agreed that the best strategy to maximize the effectiveness of more limited resources was to coordinate their development efforts in the hope that, at the very least, they could reduce programmatic conflicts and counterproductive activities and, at best, enjoy some savings through greater specialization and complementing strategies. The larger donors, USAID, DFID, GIZ, and JICA chose to form cooperative arrangements on a country-by-country and issue-by-issue basis so as to keep as much direct control of development objectives and direct management of their spending as possible. Besides, with controlling shares in the development banks, these countries, working in concert, could ensure that the banks' development policies and programs were compatible with the strategies these countries developed in partnership. By 2017, there were very few new development projects anywhere in the world funded independently by a single national donor agency. Older independent projects, those created before 2014, are now winding down and are being gradually replaced by multinational partnerships.

However, given the profound underlying differences in the Anglo-American and Continental perceptions of the purpose of civil society and diametric understandings of its relationship to both the public and private sectors, there could be little agreement within these partnerships as to what role civil society should play in economic development. While the Anglo-American approach saw civil society as a bulwark against public sector overreach, the Continental perception is that civil society serves as a defender of public interests against exploitative commercialism. USAID projects fostered civil society organizations as watchdogs over host government agencies that the European donor agencies were helping to establish. On the other hand, U.S. officials became frustrated by European donor agencies encouraging the civil society organizations they supported to second guess and harass the enterprises that American donor funding was trying to grow. These mixed messages often left local civil society advocates bewildered and little consensus among public expectations as to what value civil society organizations bring. As a result, public support for civil society has remained weak.

This fundamental difference greatly also affected the potential partners' understanding of how civil society organizations should be financed. In the Anglo-American model, funding of civil society organizations should primarily be the responsibility of the private sector and public sector subsidies counterintuitive. In contrast, under the Continental approach direct public sector subsidies for civil society organizations are considered quite reasonable and standard operating procedures. Consequently, partners cannot agree on how long-term funding for civil society should be promoted and neither really pays attention to how civil society organizations eventually should be financed. With little direction from donor agencies on how CSOs should be funded and weak public support, the local funders that both American and European donors expect to just naturally emerge to replace their subsidies never truly develop.

With little agreement as to the role of civil society or public sector agencies in economic development, the one development objective in which all national donor agencies agreed to be beneficial was enterprise development primarily through increased efficiency of the financial sectors in targeted countries. The donor agencies coordinated efforts to reform banking sectors by supporting microfinance institutions, banking industry reform, and privatization. They also encouraged multinational corporations to provide foreign direct investment. However, to do this, donors needed to work with local firms to improve quality standards and to subsidize and often operate workforce retraining centers to help local firms adopt new technologies and business practices necessary to successful foreign investment. In the European model, standards and worker training is seen as a government function and not as an activity for civil society as in the U.S. Consequently, European standards were more likely to be adopted as American firms expected what they did not realize was a dysfunctional civil society to promote their standards.

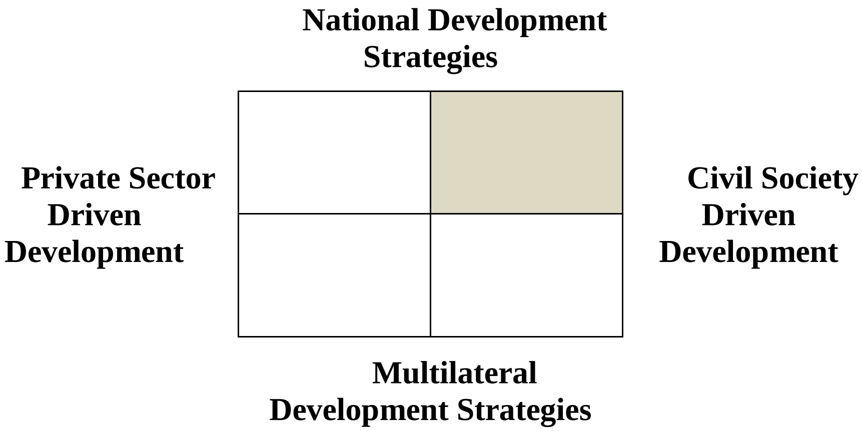
One of the most significant trends in international development over the past five years has been the growing importance of emerging country donors as funding sources in their own right. These smaller donor agencies, especially the emerging regional superpowers such as Turkey, South Korea, Poland, and India, have chosen, for the most part, to coordinate their efforts with their regional development banks, the U.N., and other international agencies to amplify their contributions. They act independently only in the few cases in which their specific national interests are in play, such as Turkey in Syria and Poland in Ukraine. These donor agencies also increasingly partner with globally positioned civil society organizations such as CARE International, the Aga Khan Foundation, Lutheran Worldwide, Catholic Relief Services and CAFOD, all of which could readily bring local resources and local agendas to bear.

The geographic strengths, objectives, and independent fundraising capacities of the smaller donors' civil society partners soon came to be as influential in setting the priorities of national agencies' development efforts as their own national foreign policies. Since in many cases, these global civil society organizations were expected to provide much of the funding for their part in development activities as well as provide local program delivery capacities, fundraising capacities of the civil society organizations both within the host country and internationally now play much greater roles in economic development than it did at the beginning of the decade. Rather than bidding on donor agency projects, global civil society organizations now spend more time in fundraising and using their demonstrations of fundraising prowess as a competitive advantage. The art and science of fundraising, which was seen as synonymous with proposal writing back in 2012, when it was considered at all, has now become a core competency in the international development profession.

However, the same economic malaise that dampened tax revenues for donor agencies also hurt charitable giving. Quickly reaching the saturation point from traditional philanthropy, global NPOs began developing more social entrepreneurial strategies to generate revenues. By leveraging market forces in achieving their global goals these organizations began working with potential foreign direct investors to support development activities that built local nongovernmental institutions to provide in worker training, standards development, and other capacities that support a more business enabling environment.

Ironically, former autocratic countries that had stifled civil society development and, therefore, could now gain the most through development investment, were the least attractive development prospects under these new arrangements. Because of Islamic teachings that charity should be anonymous, civil society organizational development had been comparatively weak in Islamic countries, even in those where it was not overtly suppressed. Consequently, these countries, where aid could have had the greatest benefit self-interests, made poor targets when participation by local civil society was required to engage donors. We now realize from the perspective of 2017 that this change in development funding caused developed nations to miss a historic opportunity in the MENA region, in particular, where assistance in reinventing the entire public sector following the Arab Spring failed to materialize. Equally ironically, countries that had expelled international civil society organizations to limit the influence of Western governments, particularly the U.S., such as Egypt in 2012, Venezuela in 2013, and Pakistan in 2014, now found USAID, GIZ, and DFID the only sources of direct development assistance with whom they could work.

Scenario III: Find a Partner



Weak economic growth and shrinking tax revenues have left national donor agencies in developed markets vulnerable to annual budget cuts for most of the last five years. Unfortunately, the economic malaise, especially in the Eurozone, has spilled over into developing supplier countries, slowing growth there as well.

Reduced demand and consumption in developed markets have slowed export growth in Asia and Latin America and stalled the foreign direct investment needed to develop new industries and modernize established ones while in Africa, Southeastern Europe, and Central Asia. Several developing economies have also seen commodity prices erode, further compromising endogenous economic growth. By 2014, the challenge facing donor agencies in advanced economies was how to do more with less.

Concluding that their much reduced resources no longer allowed for enterprise-specific development projects, donor agencies realized that they could best promote development by spreading their bets more widely through more emphasis on institutional development. For USAID, the shift "from aid to trade" without picking specific industries or sectors, forced an emphasis on transparent quality control mechanisms and standards development reforms that soon made addressing corruption head on an unavoidable issue. With slow global economic growth in 2013 and 2014 resulting in soft prices for commodities and consumer goods, there was little profit margin to allow for waste from low quality suppliers or to indulge corrupt officials. Stories of corrupt government agencies squandering Western aid money provided too easy a target for an increasingly xenophobic and isolationist Congress looking for any reason to reduce spending that did not directly benefit their constituents.

Development officials found that there were few labor intensive industries left to exploit in the 21st Century. Information technologies had made even traditional industries such as agriculture, textile, apparel, and other soft goods manufacturing more technology- and information-intensive. Even the most basic of industries needed to attract substantial capital and provide extensive workforce investment to feasibly compete in global markets. In addition, the accelerating pace of innovation required that returns on investment be captured in ever shorter timeframes. In this environment, weak standards compliance mechanisms were deal breakers for foreign investors.

With ignoring institutionalized corruption was no longer an option, the traditional "Field of Dreams" economic strategy of developing industry first and address business environment transparency later after some critical mass has been achieved, was finally rejected as a viable approach to sector development. Besides, since most developing markets are standards takers and not standards makers, local government standard agencies have become at best quaint anachronisms in an increasingly globalized marketplace. Trying to reform existing local government institutions has proved ineffective in developing enterprises that are capable of competing in global markets at best. At worst, corrupt institutional gatekeepers actually undermined the competitiveness of local businesses. Development agencies realized that working with more flexible and responsive market-driven industry organizations that could create and better manage standards in the fast paced markets of today was a better approach.

Starting in the early 2000s, European, American, and Japanese business associations, professional societies, and standards organizations, facing declining membership and weak domestic market growth became increasingly engaged in developing markets to gain competitive advantages for their remaining members back home. Businesses in developing markets adopted the standards of the country which appeared to be the “best in class” at the time with varying degrees of success. Many U.S. industry and professional standards, for example, assume access to infrastructure that might not exist such as reliable and affordable broadband Internet services. Professional certifications assume the ability to enforce intellectual property rights. China has demonstrated time and again that in countries with authoritarian regimes gaming the system is a way of life and the organizational and individual self-discipline needed to adhere to quality controls not even fully understood. Standards agencies in developing markets expect practitioners to display a sense of ownership for standards through pluralistic collaboration in standards development and self-policing of those who skirt quality controls. But in environments in which the ability to circumvent authority and rules had become widely prized, self-policing was difficult to introduce.

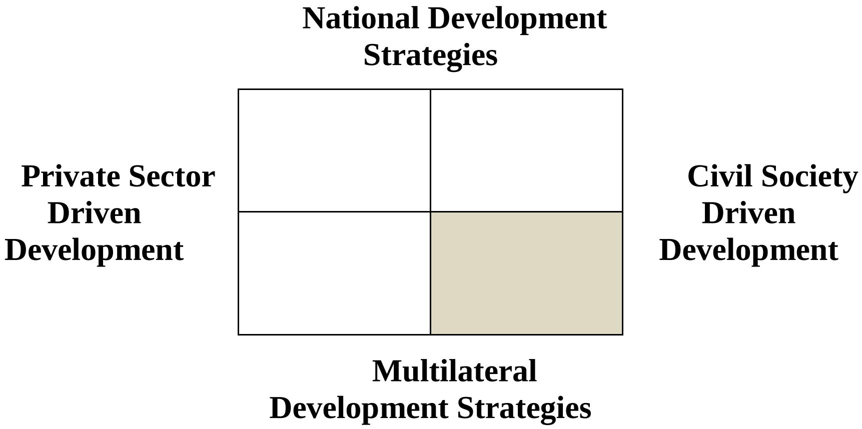
Developing standards proved most difficult in Sub-Saharan Africa and Central Asia. The lack of adequate ICT infrastructure, low initial volumes of international trade, which had limited private sector contact with developed markets, and decades of donor programs that have ingrained an entitlement mentality made transitioning from donor driven to an investor driven development difficult for public institutions and civil society organizations alike.

The foreign organizations that came in to work with them faced similar challenges. They failed to realize that they were not in Kansas anymore. Having rarely worked outside their home markets before they did not realize that basic assumptions about rule of law and market discipline needed raise quality standards practices simply did not apply. They knew *how* American standards organizations worked but they did not understand *why* they worked. Consequently they were unable to adapt national standards to other environments.

One solution adopted by many donor agencies was to work with specific companies to create new suppliers. However, the only way for this approach to be attractive to the foreign firm, which needed to commit the resources needed to build a proprietary standards supply chain would be to make the supplier a captive resource. For the supplier in developing markets, however, this smacked of exploitation. Only in Asia, where such close integrated relationships are actually valued have these arrangement proved to be sustainable.

Nonetheless, by 2015, economic development professionals starting referring to “natural spheres of influence” that categorized countries and industries into supply chains of American, European, or Japanese market dominance. Although China has become the single largest consumer of raw materials, it has not yet made it into this group. Continued and well publicized quality control problems of its own have undermined its ability to claim true global leadership in any field. China’s export strategy remains focused on maintaining competitively low costs while still maximizing domestic added value, which means that developing markets serve only as suppliers of raw materials and China offers little in technology transfer or best practices. Although it has been the world’s second largest economy for most of the decade, China has remained a standards taker.

Scenario IV: Changing the Game



By 2013, the major lesson from the 2008 global financial crisis, which started with the collapse of several American financial institutions, and the 2011-2012 Eurozone Crisis, had finally sunk in: In a rapidly globalized economy, all business really is global. Trying to develop local enterprises on a national basis was no longer possible when feeding into global supply chains. As a result, donor agencies began taking regional approaches to economic development, especially in those regions in which national markets simply were not big enough to support an infrastructure needed to compete in a global economy or had the resources to satisfy on its own any part of a global supply chain..

In Southeastern Europe, for example, despite the still open wounds from the ethnic wars of the 1990s, the former Yugoslav republics began integrating their standards agencies through independent organizations. The first of these were in information technology credentialing in business services and raw agricultural products in the goods producing sector in the early 2000s. Other industries followed as the republics realized that individually they did not have the resources needed to meet the institutional requirements to become members of the European Union. To avoid charges of abandoning hard fought national control, these standards organizations were created as independent civil society organizations. Intergovernmental organizations would not have been feasible given relationships between Serbia and Kosovo and Macedonia with Albania, which quickly joined the pan-Balkan effort. This approach to non-governmental approach to pan-national integration, even in regions where relations have remained somewhat hostile, has become a model for other parts of the world.

Similar regional groups emerged in Sub-Saharan Africa, again, because of a lack of domestic capacities in or economic dominance by any one of the countries in the region. Here, financial services and business services were among the first to develop regional standards. In the former French colonies in North Africa, agricultural suppliers, trying to reintegrate themselves into the French and, in effect, the European market, began collaborating more closely with French agricultural associations to come up with an independent product standards organization and to manage the costs meeting the EU's rigid agricultural standards . In all of these cases, national governments were required to sacrifice national sovereignty to help their private sectors become competitive; a task more easily achieved in some markets than in others.

Those who benefited from the corrupt product inspection processes, both the bribe taking official and the bribe paying business, naturally fought the establishment of independent regional testing centers declaring that they were actually tools of developed countries to raise the costs of their products and reduce competition in the export market or arguing that these standards organizations were only the most recent manifestation of post-colonial Western efforts to maintain control. They pointed to the loss of sovereignty by all of the countries that participate and the fact that the initial capital outlays were provided by foreign governments as proof that these standards and testing centers were actually created to do the bidding of the funding nation and not that of the participating firms. Fortunately in most cases those government agencies, businesses, and civil society organizations that would benefit from more transparent regulatory regimes came together to counter these claims. However, they were not universally successful. National animosities often prevented mutually action. Macedonian customs officials routinely held up Albanian and Kosovar products on their way for testing. Samples often arrived at the testing centers broken or spoiled, which led to a series of diplomatic clashes.

The most successful international industry testing organization is the Joint Commission International (JCI), a Chicago-based organization originally established to accredit U.S. hospitals and clinics. However, as a growing physician shortage domestically forced more and more U.S. hospitals to partner with foreign medical centers, JCI started accrediting foreign hospitals as well. Within a decade the number of foreign accredited institutions rocketed from just nine to over 600 and was the *sine qua non* for medical travel, which for several countries in the Caribbean, Central America, Asia, and the MENA region, has become the largest source of foreign currency earnings. That kind of success and revenues did not go unnoticed the ministries of finance of countries to whom extra-governmental testing centers were proposed.

The biggest problem development officials have faced in creating regional standards agencies was developing sustainable business models to support them. Donors offered to provide the seed money to establish the testing capacities. But to be credible suppliers to the end-user markets, these testing organizations needed to demonstrate that they would be there for the long haul and that they were truly transparent. National testing labs and credentialing organizations had often charged fees that were below costs with the balance being subsidized by the government. The rationale was that the lower fees encouraged micro-enterprises and family-owned farms, in the case of agricultural products, to participate. But questions were raised as to how to distribute the costs across several national governments, especially when they all had entitlement attitudes for any initiative fostered by foreign donor agencies. Neither the businesses using the testing facilities nor the regional governments wanted to pay the operating costs of the regional testing centers, despite the fact that, thanks to economies of scale and the elimination of bribes, these centers were far more cost effective than what they were replacing.

However, failure to capture the true market value of the tests in the pricing would, in the end, invite corruption but now on a regional scale and in a potentially legal gray area as to which jurisdiction would have the right to prosecute. Some cases were reported of prosecutorial harassment of bribery charges – but only against firms from outside the country where the testing center was resident.

Social investment, a little understood concept even in countries with more advanced civil society sectors, offered a potential solution. But social investors face the possibility of free-riders who could capture all of the returns on investment –and then some. By 2017, regional testing centers established to manage quality controls primarily of agricultural and process foods, pharmaceuticals, professional business services, and healthcare services.