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The Role of US Aid in Tackling Climate Change: Context and Questions for USAID and MCC

Sarah Rose and Jocilyn Estes

INTRODUCTION

The Biden-Harris administration has outlined an ambitious agenda intended to restore US leadership in the fight against global climate change, rejoining the Paris agreement and announcing commitments to halve domestic emissions from 2005 levels and double climate-related financing to developing countries. After four years of neglect from the White House under President Trump—and declines in direct funding—climate has (re)emerged as a centerpiece of US global engagement and US development policy more specifically, as policymakers seek to support emerging economies to meet economic growth goals in a sustainable way.

US international investments to tackle the climate crisis take several forms, including contributions to multilateral institutions, funding for diplomatic efforts, financing extended by the US Development Finance Corporation (DFC), and the provision of bilateral development assistance. This paper focuses primarily on the role of US bilateral development assistance in addressing climate change, particularly aid provided by the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC).

In the following sections, we outline the Biden-Harris administration's recent climate commitments and their implications for US bilateral aid, situate these within the context of the recent past, and discuss several questions USAID and MCC will face as they seek to refine and implement their new climate strategies.

A DATA SNAPSHOT OF PAST US CLIMATE ASSISTANCE

The best available high-level picture of US climate-related assistance comes from the OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS) database on aid activities targeting global environmental objectives. The database captures donor-reported data on whether funded activities target environmental goals or Rio Convention climate objectives; activities are coded as principally targeting a climate or environmental objective, significantly targeting a climate or environmental objective, or not targeting climate or environmental objectives (the latter are excluded from this data exercise). A single activity can target multiple objectives (e.g., both climate change mitigation and adaptation), so most of the analysis presented below discusses these categories as distinct.

DEFINITIONS: TYPES OF CLIMATE ASSISTANCE

Mitigation activities seek to stabilize or reduce atmospheric greenhouse gasses by limiting human-driven emissions and/or protecting or enhancing greenhouse gas reservoirs like tropical forests.

Adaptation activities seek to reduce vulnerability to actual or expected impacts of climate change by helping populations understand, manage, and/or avoid climate risks.

Activities with a **principal** mitigation or adaptation objective are those designed to primarily and directly achieve specified climate goals.

Activities with a **significant** mitigation or adaptation objective are those whose primary goals are not climate-related but which are explicitly formulated to address climate concerns.

Source: OECD DAC Rio Markers for Climate Handbook.

Our aim in collecting this data was to contribute to our understanding of US bilateral assistance allocated to address climate-related issues between 2015 and 2019 (the most recent data available). But this summary should in no way be interpreted as comprehensive, even within the parameters we've outlined since there are some questions about the quality and comprehensiveness of the reported data. As an illustrative point, in 2020, the Government Accountability Office (GAO) found that USAID—which is responsible for the vast majority of the climate-related assistance reported to the OECD—did not consistently report all planned funding for activities that indirectly addressed climate adaptation. This limitation may not translate directly to the OECD data used in this paper which reflects commitments (i.e., obligated funds) rather than planned funding but it does raise questions about how comprehensively USAID has recorded its climate-related activities.[1]

The analysis below includes grant-based development assistance from all contributing US agencies going to countries, regions, and/or multilateral funds/partners. It excludes commitments by the US Treasury to multilateral organizations, as well as loan or other finance commitments from the Overseas Private Investment Corporation (now DFC).

Overall funding for climate change adaptation and mitigation

Between 2015–2019 the United States provided $10.5 billion in climate-related development finance (any activities with a principal or significant adaptation or mitigation objective). In this time period, it was the sixth largest DAC donor, behind Japan, Germany, the European Union and the United Kingdom. Compared with other DAC donors, the United States dedicated a relatively smaller portion of its aid portfolio to activities targeting global climate objectives. For every year from 2015 through 2019, reported US assistance allocated to climate change adaptation and mitigation (both as a principal and significant objective) each comprised less than three percent of total reported US development

1 In USAID's database, the DAC policy markers are optional fields that are hand entered. Teams doing data validation double check large awards to ensure the correct policy markers are coded; they also double check projects with climate-related terms in their descriptions. But it remains possible that some programs with climate objectives—especially those for which climate objectives are significant but secondary—are not tagged as such.

assistance. In comparison, for adaptation, the EU spent an average of five percent and France over 12 percent. For mitigation, Germany averaged 13 percent of ODA and France over 25 percent.

Over the last five years, reported US climate-related development finance has averaged around $2 billion per year, with a peak in 2016 and a decline of nearly 50 percent over the next two years (Figure 1).

Figure 1. Overall US climate-related development finance (2015–2019)

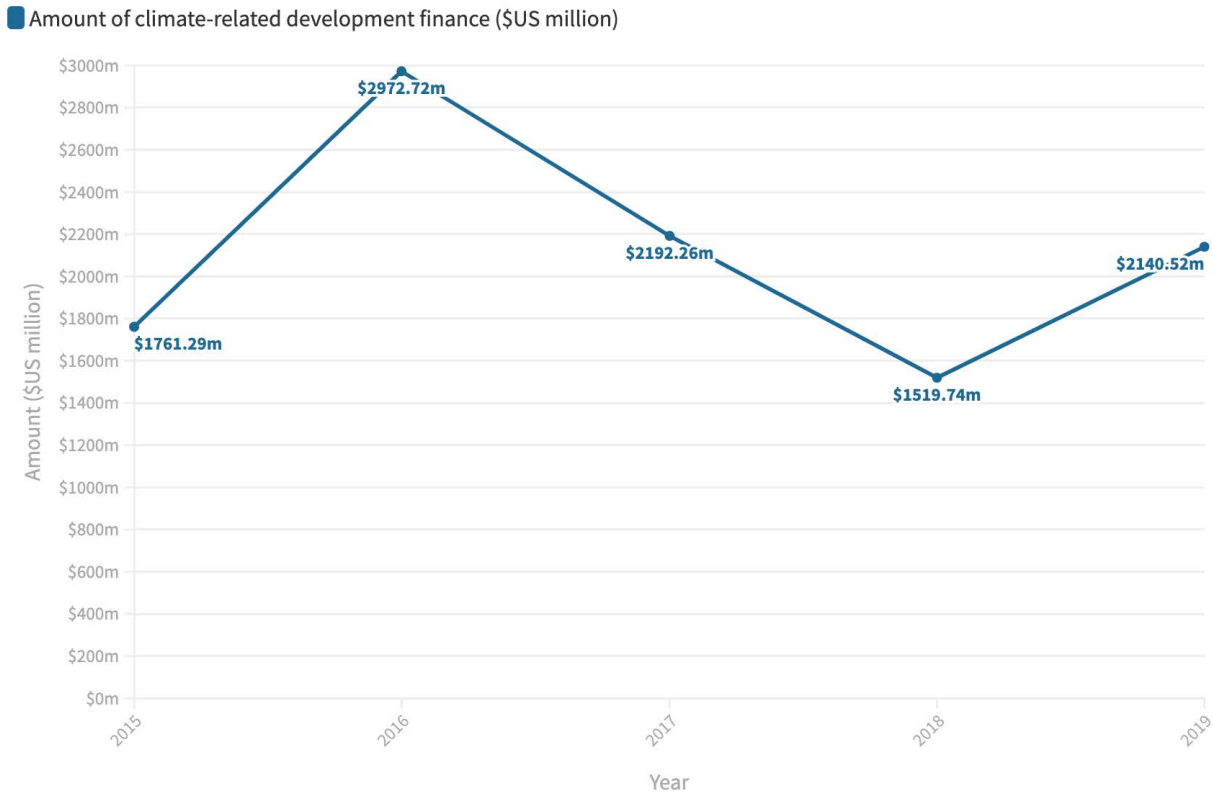
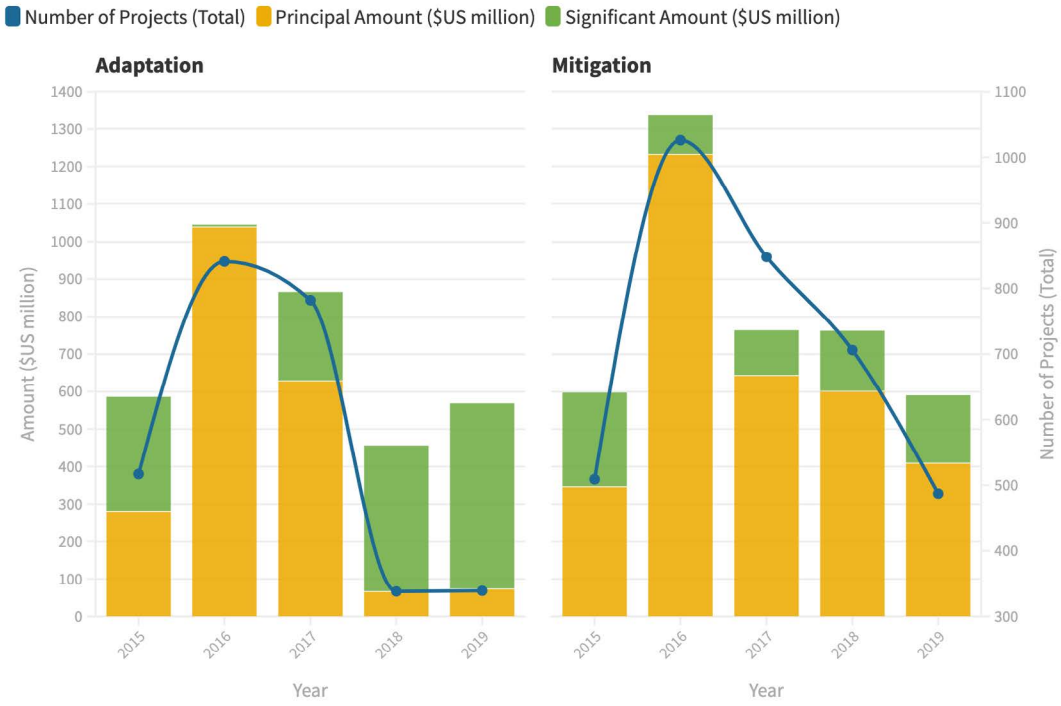


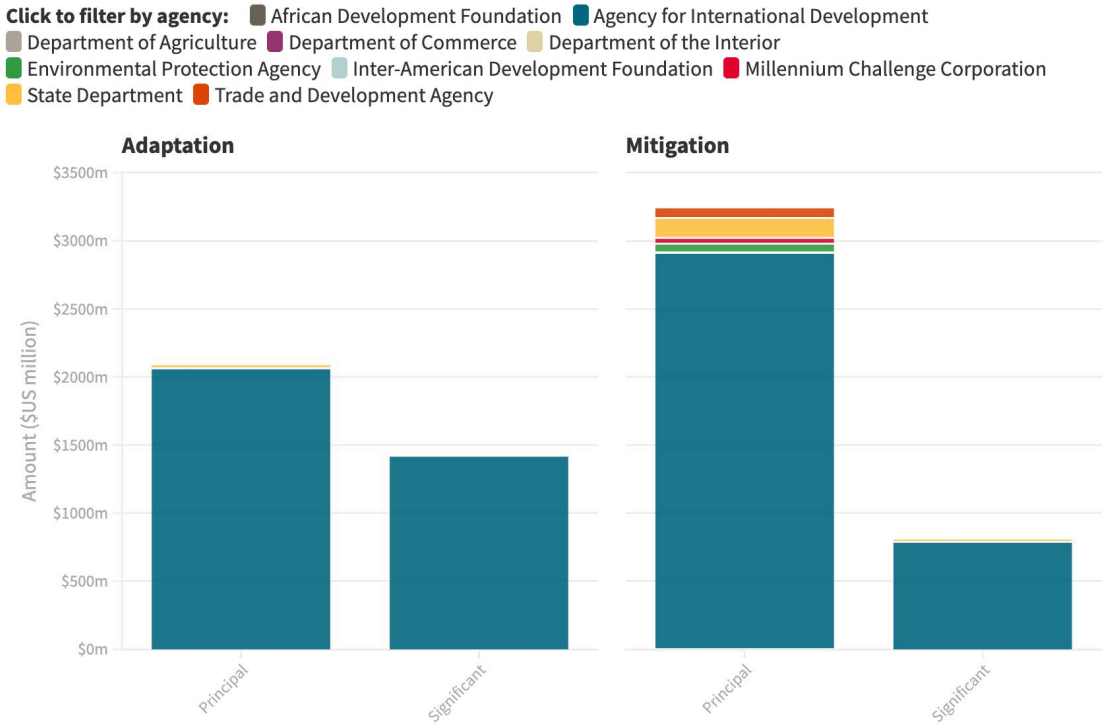
Figure 2 shows, over this same time period, the breakdown of US climate-related development finance into adaptation and mitigation goals, both as a primary or significant objective (figures will not sum to the totals presented in Figure 1 since some funding targeted both adaptation and mitigation goals). The 2016 peak in funding for investments whose objectives were principally climate-related (either adaptation or mitigation) likely coincides with the big push at the end of the Obama administration to make good on international climate commitments through various funding accounts, including a $500 million grant contribution to the Green Climate Fund and pledges made under the umbrella of the Global Climate Change Initiative (many of which were not fulfilled until 2016). On the other hand, 2016 had the lowest reported funding for activities that carried climate-related objectives as a secondary (i.e., significant) objective (raising some question about the consistency across years of how activities were coded as "significant" or "principal").

Figure 2. US aid activities targeting climate mitigation and adaptation, 2015–2019



Looking at the reported data by agency (Figure 3), USAID has been responsible for nearly 100 percent of US climate adaptation assistance, almost 90 percent of assistance with a principal objective of greenhouse gas mitigation, and nearly 97 percent of assistance with a significant mitigation objective.

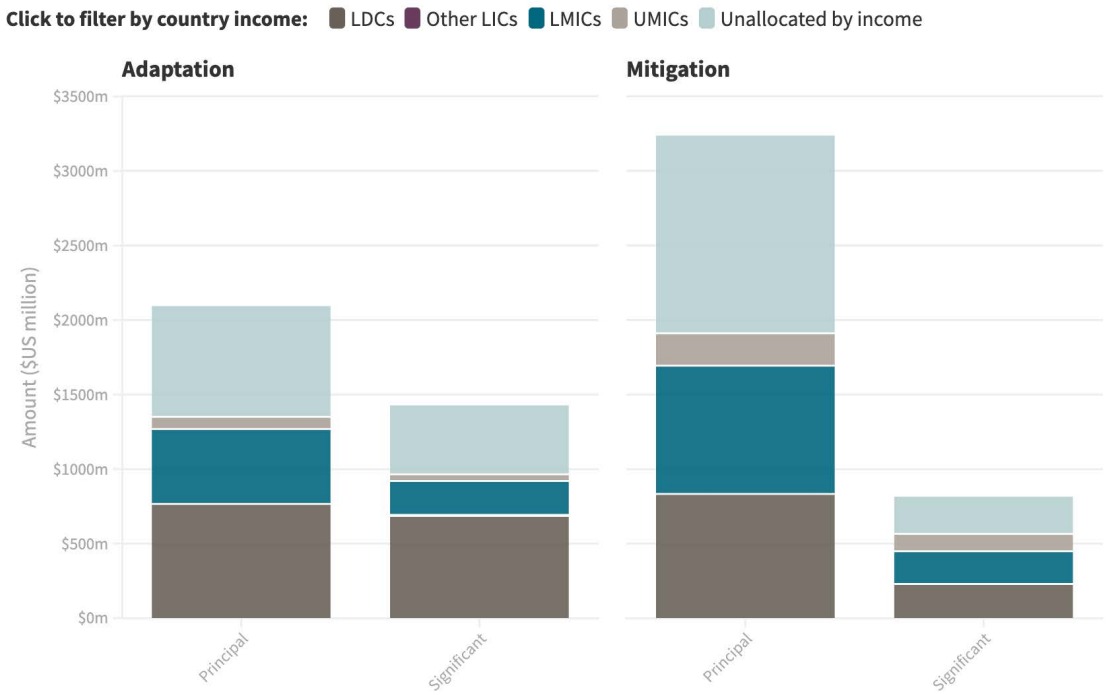
Figure 3. US climate change adaptation and mitigation spending by agency, 2015–2019



Where US climate assistance goes

Figure 4 shows adaptation and mitigation spending by recipient country income category. Note that around a third of spending in each climate finance category goes to recipients without a specified income category. These activities largely comprise multi-country projects, contributions to international organizations, or funding for technical cooperative agreements.[2] For the data for which an income category is specified, over half of recorded spending for adaptation (as a principal or significant objective) went to least developed countries (LDCs) and other low-income countries (LICs). US assistance for climate change mitigation was somewhat more concentrated in middle income countries.

Figure 4. US climate change adaptation and mitigation assistance by income level of recipient, 2015–2019



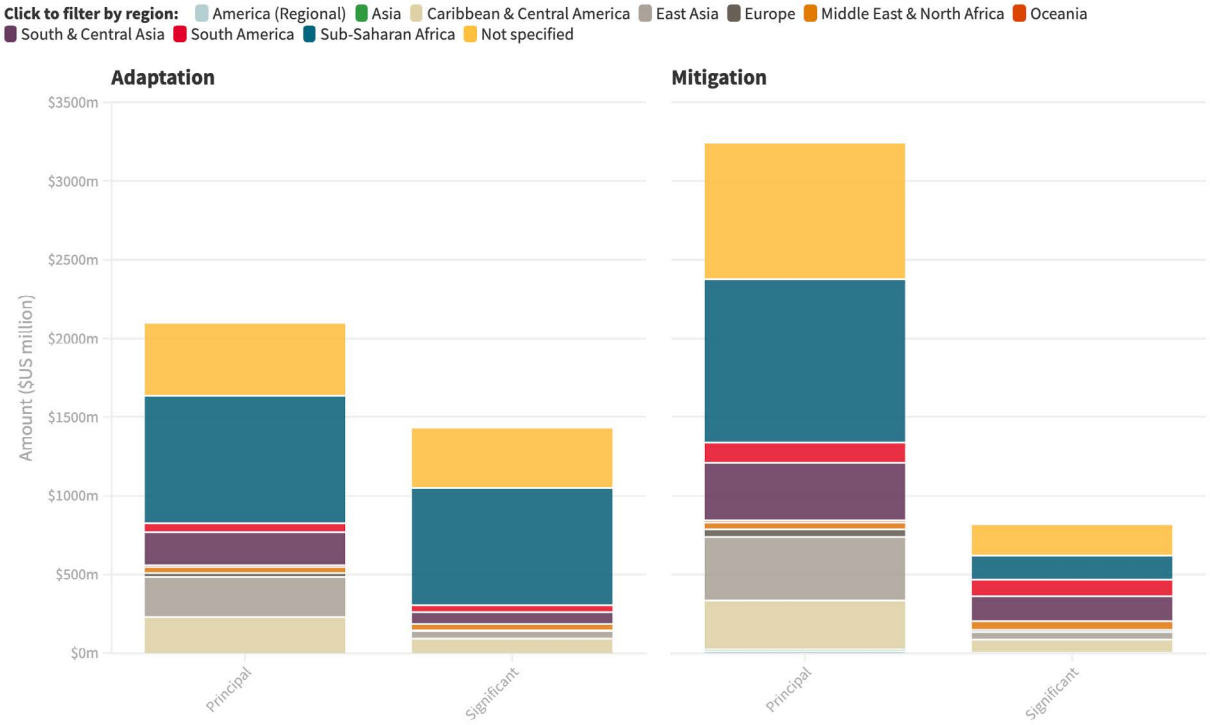
*Some values may not appear above due to small amounts and/or rounding

The destination of US mitigation assistance is particularly important to observe since some observers—including CGD colleagues—have voiced concern that mitigation-focused assistance is more likely to be allocated to middle income countries or relatively larger economies where energy markets are prepared, for example, for major renewable energy projects. Analysis of US mitigation assistance, however, shows that while over half of mitigation funding has gone to middle income countries, its primary recipients have been lower middle-income countries (LMICs). Over three quarters of US mitigation assistance has gone to LDCs, LICs, and LMICs.

2 For example, contributions to multilateral funds for the implementation of global clean air initiatives, including the Montreal Protocol, are channeled through the EPA and are classified as unspecified, as are various projects with US-based institutions.

Other development advocates have raised concerns that aid money for mitigation in lower income countries might displace other development priorities, despite the fact that emissions mitigation activities in LICs—which tend to have very low base emissions levels—would have little to no impact on global climate goals. This criticism, however, ignores the mitigation role of conservation activities. The top countries receiving US assistance principally for mitigation include Guatemala, Indonesia, and Vietnam, middle-income countries with globally important forest landscapes that act as carbon sinks. A majority of US climate spending in these countries reflects an emphasis on conservation.[3] On the other hand, in Sub-Saharan Africa, which received around a third of US assistance characterized as principally for mitigation, almost a quarter these funds were in the agriculture sector, with other substantial pots of money going to energy policy and management and biodiversity projects.

Figure 5. US climate assistance by region, 2015–2019

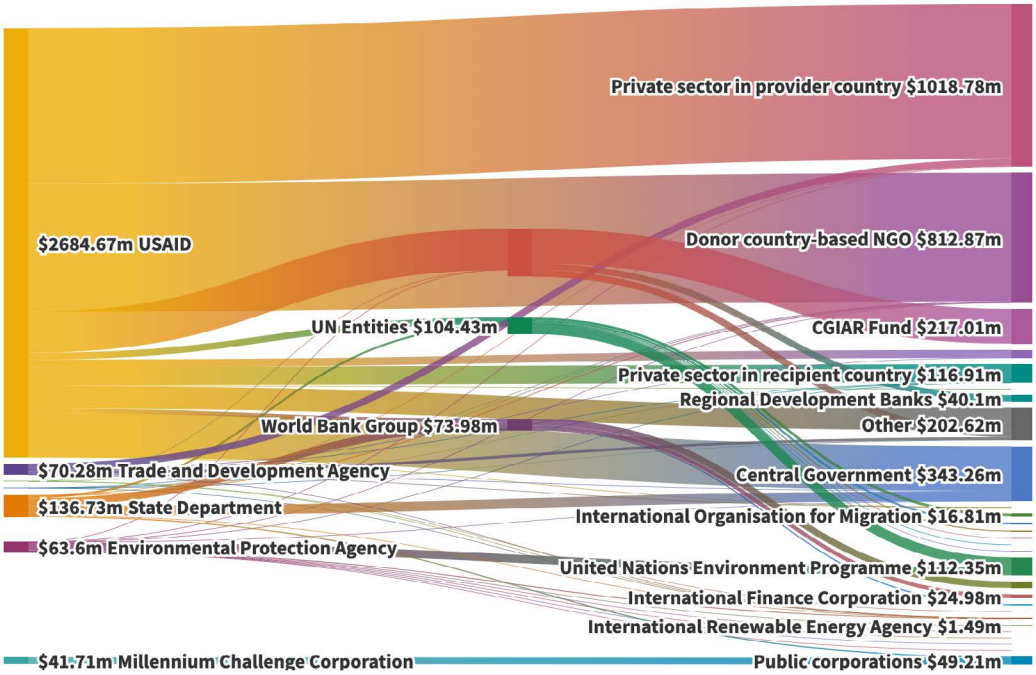


*Some values may not appear above due to small amounts and/or rounding

In terms of implementing partners, assistance principally for mitigation is channeled mostly (over 56 percent) through donor or provider country-based implementing partners (whether private sector or non-profit) for project-type interventions. Multilateral implementers (primarily the United Nations Environment Programme) received over 12 percent of US mitigation spending.

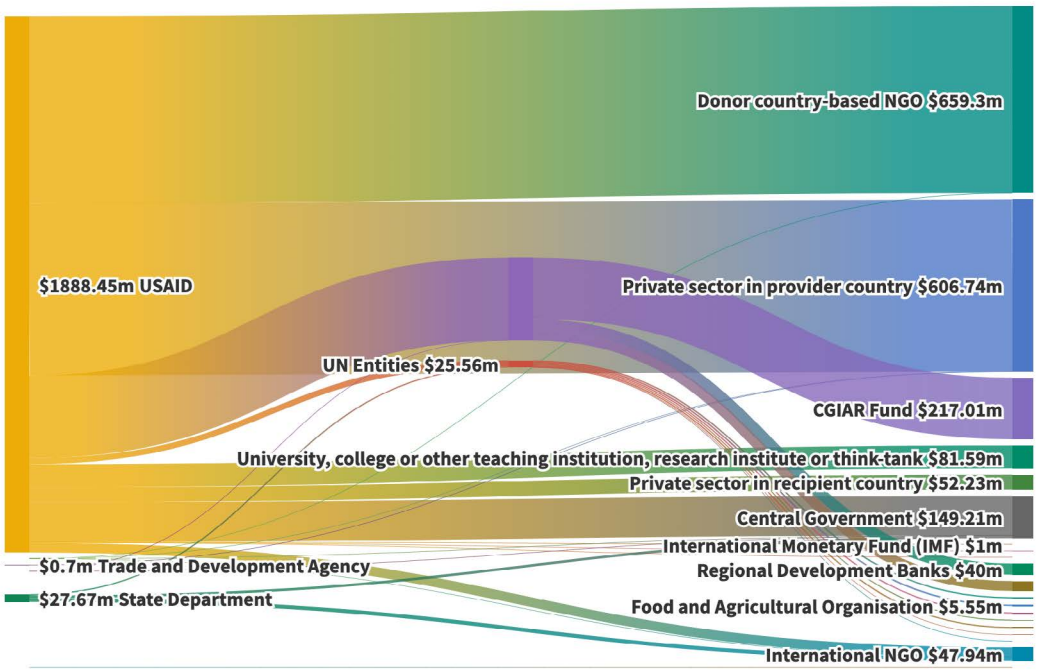
3 For instance, over 75 percent of reported assistance principally for mitigation in Indonesia in this period went toward environmental protection.

Figure 6. Implementing partners for US climate change mitigation assistance, 2015–2019



Adaptation-focused assistance was primarily implemented by donor country-based partners (both non-profit, 31 percent, and private sector, 29 percent).

Figure 7. Implementing partners for US climate change adaptation assistance, 2015–2019



OVERVIEW OF WHITE HOUSE AND AGENCY-LEVEL CLIMATE COMMITMENTS

The Biden-Harris administration has promised to work with Congress to double annual climate spending going to developing countries (by 2024, relative to FY13–FY16 levels). The first budget request reflects this commitment. On the multilateral side, there are requests for a $1.25 billion contribution to the Green Climate Fund, a $300 million contribution to the World Bank's Clean Technology Fund—neither of which received US funds in recent years—as well as a small plus up in funding for the Global Environment Facility, which finances environmental projects, some of which are climate-related.

On the bilateral side, the budget request offers fewer specifics on funding since climate-related assistance is typically funded through core development accounts, especially Development Assistance, and since climate considerations are expected to apply to all programming, across sectors and accounts. What we can expect, however, is a plus up in adaptation-focused spending, given the administration's commitment to triple financing for adaptation objectives within the overall climate finance scale up. Since there are fewer prospects for commercial returns from adaptation programming, development assistance is likely to be the primary tool for achieving those goals.

As for individual agencies, the White House's International Climate Finance Plan outlines some of the specific ways the executive branch will elevate climate within and across agencies. Individual agencies have also previewed their commitments to advancing the administration's climate priorities. Some highlights for USAID and MCC are discussed below.

USAID

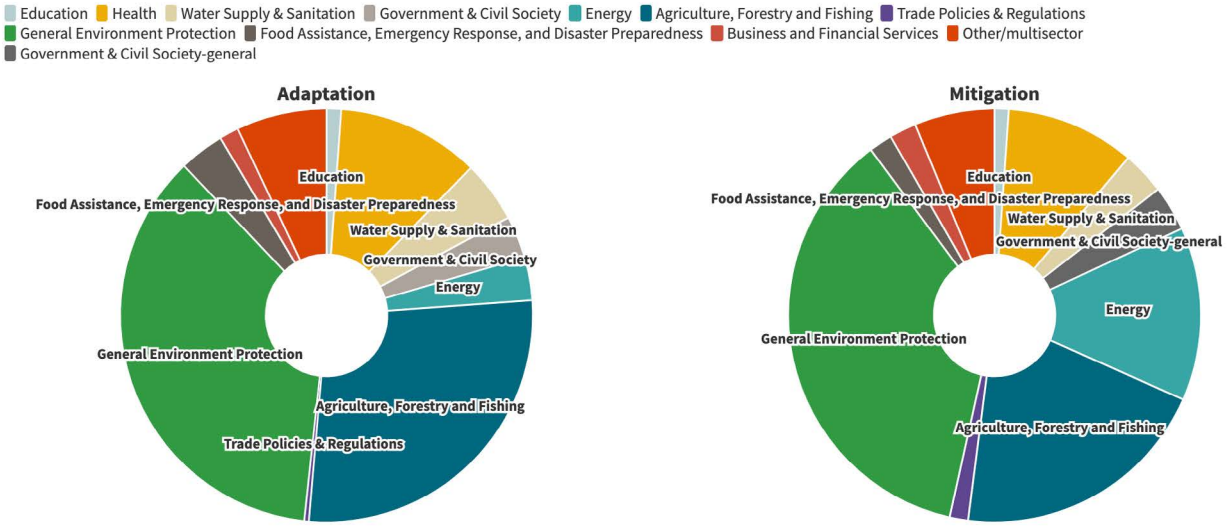
Looking back

Between 2012 and 2018, USAID's climate programming was informed by its Climate Change and Development Strategy which included three main pillars: adaptation, clean energy (mitigation), and sustainable landscapes (mitigation).

Combatting climate change was not a priority of the Trump-Pence administration. Bilateral assistance going principally toward adaptation objectives lapsed between FY2017 and FY2020. USAID issued no new climate strategy or policy documents, even after the prior strategy expired in 2018. In fact, the agency generally abstained from even mentioning climate change in most announcements and materials. In the end, some of the agency's climate activities were scaled back or brought to a close. However, the pots of funding USAID has historically drawn from to support its climate programming were largely sustained by Congress, so much of the agency's climate-related programming did continue, even if the climate-related benefits of this work were no longer touted.

Over a third of USAID's 2015–2019 reported spending on programs with a principal climate objective (both in adaptation and mitigation) went to general environmental protection projects, including multisector projects, conservation programs as well as environmental policy and administration. Around another quarter of core adaptation and mitigation funds went to agriculture projects, helping farmers deal with the impacts of climate change including by investing in irrigation systems and water storage for crops, for example, or through projects designed to support seed varietals resilient to drought or other climate-related natural disasters. A sizeable portion of mitigation funding also went to energy projects (12 percent).

Figure 8. USAID's climate change adaptation and mitigation spending by sector, 2015–2019



In addition, in 2016, USAID adopted agency-wide climate risk management (CRM) requirements. For all projects and activities across the agency's portfolio—regardless of whether they have direct or indirect climate objectives—staff must lead (or oversee implementing partners to conduct) an assessment of the extent to which climate risks might jeopardize program outcomes and create a plan to address, manage, and monitor these risks. Since 2016, USAID has documented CRM processes for 95 percent of its programs, though they've focused mainly on the design phase and quality has been mixed.

Looking ahead

USAID is planning to release a new climate change strategy in November 2021. The revised strategy is still taking shape, but the agency and the White House have provided some hints as to what elements are likely to be included. First, the strategy will re-emphasize that climate change considerations should factor into all USAID programming across sectors. Second, within mitigation activities, there will likely be a renewed focus on transitioning away from fossil fuels and toward renewable energy. Third, the strategy may highlight how USAID will work with the private sector to mobilize climate-related investment. And finally, given the White House's emphasis on coordination across agencies, including between USAID and DFC, and USAID and MCC, it seems likely the strategy will outline specific coordination opportunities and mechanisms.

MCC

Looking back

MCC has never had a specific climate mandate, per se, but climate change considerations have long been a part of the agency's project due diligence and assessment processes. MCC selects its investments—which are developed by country partners—based on the extent to which they address a binding constraint to growth and are likely to yield a strong economic return. Policies and processes are in place to manage environmental or social risks—or in some cases, prevent the approval of projects

whose risks are too high. But climate considerations have not been systematically part of the agency's investment decision making.

Even so, climate has featured prominently in MCC's programming. In a recent stock-taking exercise, the agency estimates that between 2015 and 2020, nearly 40 percent of its portfolio—over $1.5 billion across 11 countries—was invested in climate adaptation and mitigation activities. Key sectors included energy, water, transportation, and agriculture.

Looking ahead

In April 2021, MCC released a new Commitment on Climate in anticipation of a forthcoming agencywide climate strategy. The agency promises to commit over 50 percent of its program funding over the next five years to climate-related investments. It will also seek to advance partner countries' climate-relevant policy, institutional, and regulatory reforms and catalyze climate-focused private sector investment. Furthermore, since MCC relies on analytical tools to measure proposed projects' relevance to growth and their economic rates of return, the agency has committed to incorporating climate considerations into these tools. Identifying opportunities for collaboration with agencies like USAID and DFC is also likely to feature prominently.

QUESTIONS FOR AGENCIES TO ANSWER AS THEY DEVELOP AND IMPLEMENT NEW CLIMATE STRATEGIES

As the Biden-Harris administration ramps up its investment to combat climate change, US aid agencies will face new decision-making points—and grapple with a number of challenges. The following sections outline a non-exhaustive list of questions USAID should work through as it revises its climate strategy and that MCC will need to consider as part of its reinvigorated focus on climate.

Key questions for USAID

How will USAID manage potential trade-offs between development objectives and climate objectives?

Development is key to reducing the harms from climate change and slowing climate change can help protect development gains. However, the dual pursuits of climate and development don't always work in lockstep with one another. There are several forms that potential tradeoffs may take.

One tradeoff centers around spending for mitigation goals. By reducing greenhouse gas emissions, mitigation can slow climate change and reduce the risk of climate shocks over the longer term. But globally, as noted above, mitigation assistance—at least the portion that focuses on emissions reduction—rarely targets the poorest countries since they're low emitters. So when development assistance is used to pursue mitigation goals, there can be a tradeoff between largely MIC-focused mitigation activities—whose benefits materialize over the longer term—and activities that promote shorter-term development objectives in poorer countries. If funding for mitigation is truly additional to core development spending, there may be less concern about such tradeoffs. But in reality, aid budgets have been fairly flat, suggesting there may be an element of displacement. That said, however, as noted above, USAID bucks the global trend to a degree with its mitigation activities more concentrated in lower income countries and more focused on conservation programming. But with the administration's renewed focus on transitioning away from fossil fuels, it will become more important to identify and weigh these tradeoffs.

Individual activities may come with tradeoffs, as well. While there are often synergies between development and adaptation efforts, certain adaptation efforts might trade off climate resilience with other development objectives (e.g., changes in agricultural practices may increase workload or reduce income, with gender/intersectional implications). Ultimately, more research is needed to understand the extent to which climate-focused development programming successfully supports both climate and development outcomes.

With enormous development needs that will persist as a global recovery unfolds, how will USAID identify these potential tradeoffs? What processes will it use to weigh the merits of different approaches, and who decides which to pursue (see the point below on localization)? How will the agency seek to manage and mitigate any potential negative impacts? And how will it communicate its decision making around tradeoffs?

How can USAID empower local actors to define and prioritize USAID-funded climate investments?

Improving locally led development has been an agency priority at USAID for a number of years and will almost certainly factor into the agency's approaches to climate programming. Much of USAID's focus on localization, however, has emphasized expanding the use of local implementers. While this is an important objective, it should not the only one. At its core, the question of local ownership must involve local voices—and local leadership—in the decision-making process: what gets prioritized, what gets funded, and, to the point raised above, what tradeoffs are acceptable.

Recognizing that climate adaptation efforts, globally, have too often been decided in a top-down fashion, World Resources Institute developed a set of principles for how funders can equip, empower, and be a good partner to local decisionmakers. To the extent that USAID seeks to follow these recommendations—either as a future formal signatory or just as a matter of practice—how can the agency employ efforts like the New Partnerships Initiative, as well as some of the recently reemphasized procurement and program design tools, like annual program statements and co-creation processes, to allow local actors to define how USAID supports their adaptation needs? What incentives and accountability for local engagement must be built into climate programming?

How can USAID mainstream effective climate sensitivity throughout the agency?

USAID has committed to mainstreaming climate across bureaus and missions. The agency has some existing tools that can help advance this objective. For instance, the application of climate risk management processes has helped inculcate climate awareness throughout the portfolio. USAID also has an active adaptation working group that pulls from and across bureaus. The question will be how to strengthen these processes, build on existing coordination structures, and potentially develop new efforts to ensure climate considerations are embedded throughout the portfolio.

For climate mainstreaming to succeed, it will need to be prioritized by bureau-level leadership (especially the behemoth health and agriculture bureaus). They can help foster broader understanding and buy-in—and help lead efforts to ground climate priorities within the language of the sector.

Does the renewed focus on climate imply any new or additional workforce requirements?

Are there ways staffing could be better optimized to reach missions and provide climate integration support? Critical knowledge and skills include forecasting climate risks over both the near-term and the longer-term, understanding potential options for risk mitigation, and establishing robust monitoring and evaluation systems that track actual risks and study the effectiveness of interventions intended to reduce them. Climate integration leads have managed much of climate mainstreaming efforts at the bureau and mission levels, but, as a recent evaluation noted, staff in these positions are often stretched thin. More comprehensive integration of climate issues will require the involvement of (and buy in from) a broader set of staff, especially those overseeing individual programs. Some responsibilities can also fall to implementing partners, but at a minimum there must be sufficient staff with the requisite skills—either through training or hiring—to oversee and review implementing partner-led processes.

Which countries should be prioritized?

Under USAID's prior Climate Change and Development Strategy, the agency outlined three sets of criteria for priority countries: Clean Energy efforts targeted countries with high—or high growth in—emissions; Sustainable Landscapes efforts targeted countries with globally important carbon rich forests (e.g., countries in the Amazon and Congo river basins); and Adaptation efforts focused on countries particularly vulnerable to the impacts of climate change, both physically and in terms of socioeconomic response (e.g., lower income countries, especially in Sub-Saharan Africa, small island states, and glacier dependent countries). Countries' ability and willingness to advance climate goals also factored in. These criteria are likely to remain relevant. And with a decade of climate-oriented partnership under its belt, USAID will have a well-grounded understanding of countries' willingness to engage—and the local capacity available to address climate risks.

But for adaptation-focused priority countries, one question USAID will likely need to grapple with is the extent to which the agency should prioritize countries facing climate shocks now vs. those with longer-term risks. A focus on countries with short-term risks doesn't preclude the incorporation of a longer-term lens within those countries. But prioritization will be important. Some have called for prioritizing the highest-risk regions. But what kind of space should there be for countries facing risks that may be slower to materialize but still pose clear future threats to livelihoods, health or other development priorities?

Are US aid tools optimized to play the long game that climate-related investment requires?

As noted above, while some communities are experiencing impacts of climate change now, many of the goals of climate adaptation programming are longer term (e.g., transitioning crops and farming methods over a 10–20 year horizon). There can be a disconnect between this long-term framing and USAID's typically three- to five-year program cycle. Are there ways USAID's typical program cycle—and the funding, monitoring, and evaluation frameworks associated with it—needs to shift to accommodate a shift toward longer-term thinking?

How can USAID improve its measurement of climate-related results?

USAID has been reporting on a set of standard climate change indicators since 2010. These are largely output or shorter-term outcome indicators (e.g., number of people trained, investment mobilized, laws adopted). Fewer indicators focus on higher-level outcomes or impact. Furthermore, in terms of evaluation, since 2015, there have been only 14 evaluations with climate change as a primary subject—and only one impact evaluation. Partly as a result of these limitations, it's hard for USAID to articulate the benefits of investment in adaptation and mitigation.

There are several reasons why it can be challenging to measure the impact of USAID's climate interventions. First, tying into the point above, expected impact is often longer-term than the three- to five-year duration of the project. Meaningful change may not be reasonable within this timeframe, yet most projects aren't accountable for results beyond the implementation period. Second, many of USAID's interventions are at the systemic level, focused on things like institutional capacity building or legal reforms. It can be hard to capture the attributable impact of these interventions since their success is influenced by multiple factors working together (most of which USAID has no control over) and the benefits of policy and institutional reforms are often diffuse.

In addition to these factors, there has also been less institutional attention at USAID to certain aspects of tracking climate results. For instance, as noted above, a recent study highlighted that even though climate risk management processes are incorporated into the design phase of the vast majority of programs, monitoring and evaluation efforts to track the effects of the climate adaptations put into place were rare.

As USAID recommits to climate change as a priority, it will be important for the agency to reinvigorate how it measures results. Agency staff will need to assess how to better capture the impact of climate investments and orient accountability toward longer-term results. The development of a new climate strategy also presents an opportunity to identify a strategic—and limited—set of questions to prioritize for evaluation, including, where relevant, impact evaluation. High on the list should be questions about common or highly funded types of activities, with space for both pilot testing and replication.

How can USAID better capture indirect spending on climate goals, especially adaptation?

In addition to better capturing results, USAID will also need to improve measurement and reporting for spending on adaptation and mitigation efforts, especially—as GAO noted—indirect efforts within sector-based programming. Certainly, the White House's commitment to better reporting and the push that will come from agency leadership to report on an administration-wide priority will provide new impetus to get it right. But are there additional processes or guidance that will need to be put in place to institutionalize this reporting in such a way that it will remain strong, even if, over the longer-term, institutional priorities shift?

Key questions for MCC

How will climate vulnerability and/or mitigation opportunities factor into country selection?

MCC selects partner countries primarily based on their performance on a scorecard of indicators measuring governance, social investment, and economic policy. Climate and environmental issues feature minimally in the scorecard, but the agency also takes supplemental information into account. Given MCC's commitment to spending half of its programs funds on climate-related activities, to what extent will climate resilience needs or emissions mitigation opportunities factor into the agency's assessments of candidate countries?

How will MCC model the benefits of climate sensitive programming?

As noted above, MCC chooses projects to fund based on their expected economic rate of return—a summary metric that compares the value of a project's estimated benefits (projected out around 20-years) with its costs. MCC looks for projects to have an ERR over 10 percent to be considered for funding.

In some cases, modifications to make activities more climate sensitive may drive up project costs. Though these climate-sensitive modifications may also yield increased benefits through climate risk reduction, the long-term benefits of adaptation programming are somewhat uncertain (given uncertainty around risks) and can be hard to quantify. And, as noted above, for interventions with a more systemic lens—those that tackle policy and institutional reforms—benefits are difficult to quantify and determine attribution.

In some cases, the projected rate of return is high enough that the potentially higher costs of climate adaptations can be absorbed even without including any additional benefits of climate risk reduction. For example, the extra costs to "climate proof" a road rehabilitation project in the Philippines were easily absorbed by the high expected returns of that particular investment without needing to take the extra benefits of climate resilience into account. But other potentially good projects may not enjoy the same buffer. For these, it will be important to capture the benefits of climate risk reduction. Otherwise, MCC could potentially find itself rejecting good projects on the basis of artificially low estimated returns. And for interventions that also seek to tackle policy and institutional reforms, benefits can be particularly difficult to quantify and determine attribution. A big question the agency will have to grapple with is how it will model the short-, medium-, and long-term benefits of climate sensitive programming? And what level of uncertainty around those estimates is it willing to tolerate?

Will MCC bring climate impact into its investment criteria?

MCC's management team reviews projects for approval based on the extent to which they address a binding constraint to growth, generate sufficiently high economic returns, reflect a country's priorities, comply with environmental guidelines and gender policy requirements, and have a clear results plan. Things like environmental and climate-related issues may also be considered but haven't been part of the core decisional criteria. With the new focus on climate, will MCC amend its investment criteria to include a specific analysis of climate sensitivity?

How will MCC improve its reporting on climate spending?

The OECD data show MCC spent $42.5 million in climate-related assistance between 2015 and 2019. MCC, based on a recent internal analysis, says it spent three times that much over close to the same period. How can MCC improve its reporting through official US processes to ensure that what it counts as climate-related spending meets standard definitions and that its climate-related spending is accurately captured?

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SARAH ROSE is a policy fellow at the Center for Global Development.

JOCILYN ESTES is a program coordinator and policy outreach assistant at the Center for Global Development.