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Subcommittee on International Development, International Organizations and Global
Corporate Social Impact

Hearing on Modernizing International Development Assistance: Opportunities and
Challenges

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Good afternoon, Chairman Castro, Ranking Member Malliotakis, and members of the subcommittee. My name is Walter Kerr. I'm the executive director of Unlock Aid, a global coalition of more than 50 organizations working to solve some of the planet's hardest problems, including some of the world's leading innovators based not only in the United States and Europe, but also in Africa, Asia, and Latin America.

For nearly two decades, successive U.S. Agency for International Development (USAID) Administrators from both parties have talked about the need to reform the way the United States administers its $30+ billion, non-military foreign assistance budget. Too [few dollars](#) reach the countries and communities we intend to support. In the worst cases, aid projects displace local markets rather than strengthen them.

Since the 1960s, U.S. foreign assistance agencies have also become too dependent on too few contractors. Last Fiscal Year, more than 50 percent of the total value of USAID's contracts went to [just ten](#) of them. We need to be working with a more diverse set of players to confront the scale of the world's biggest challenges. Consolidation in any sector increases costs and stifles innovation.

Here's the good news. There is a new generation of innovators driving breathtaking economic growth and social progress across Africa, Asia, and Latin America. None of them would call themselves an "international development company." Yet they are lifting millions of people out of poverty, delivering healthcare to last-mile communities, and feeding entire populations. They are embedded within and accountable to the communities they serve.

If we ever hope to transition to a world that is free from the need for foreign aid, we have to bet more on this next generation of organizations of the future. Doing so is the best way to drive better results while having a more sustainable impact.

Over the past year, Unlock Aid consulted more than 150 of these world-class innovators solving problems related to food insecurity, global health, and other challenges. We asked them what changes they felt they needed to see to feel able to work with the world's largest international development agencies, including USAID, the U.S. International Development Finance Corporation (DFC), multilateral organizations, and others. We also looked at how other federal agencies and large institutions have changed their vision of business as usual to increase innovation, accountability, and results.

We've developed policy recommendations for Congress based on those consultations and research, which I've included as supporting materials to this written testimony. What follows is a summary of some of the key ideas.

Pay for performance

So much of the debate about how to get more resources to organizations in developing countries has focused on the question of capacity building. But there's already enormous capacity. What people often *really* mean is: How do we get organizations in a position to manage the red tape that goes along with working with the U.S. Government work? As you may know, it can cost as much as $200,000 just to apply for and comply with a traditional USAID award.

- ***Increase the use of innovative procurement tools, like milestone-based grants and contracts***
  One elegant solution is to increasingly use underutilized but innovative procurement models that pay for results, not inputs. Other federal agencies like NASA have increased their use of milestone-based contracting to get more innovative players in the door, for example. USAID could do the same. Milestone-based awards are good for non-traditional players because they have fewer red tape requirements. They are also good for accountability because payment is only triggered when milestones are met. Last Fiscal Year, USAID structured just 1.3% of the total value of its grants as Fixed Amount Awards this way, so there's considerable room for growth.

- ***Publish up-front the agency's willingness to pay for high-priority goals***
  Not every global development goal can be quantified in dollars and cents, but many can. A few examples include: the cost per vaccine administered or per megawatt of clean energy generated. In sectors like health, power, and food security, USAID could publish its willingness to pay for clearly defined, high-priority results, using standardized and universally-recognized indicators. Then, vetted providers could register their intent to do the work, at what cost, and according to what timelines. This would obviate the need for

responses to complex RFPs in favor of simple service delivery contracts. This kind of approach would also favor organizations that have existing, more cost-effective solutions that are ready to be deployed today because they would not need to subcontract to larger international intermediaries.

Build new pipelines

At the same time, we also need to proactively build new pipelines to get more diverse and innovative players in the door.

- ***Build more formal links between the DFC and USAID to hasten the transition from "aid to trade"***
  Congress can establish more formal links between USAID and programs like PEPFAR, and the Development Finance Corporation (DFC). In sectors where there are mature markets, like health supply chains, U.S. foreign assistance can hasten the transition from "aid to trade." For example, the DFC could provide existing, in-country healthcare and logistics providers with upfront working capital to expand their footprint. In parallel, USAID and PEPFAR could pay those firms against predefined performance metrics, such as the percent of on-time deliveries made or number of patients screened.

- ***Build a Commercialization Pipeline for Next Generation Innovations***
  Congress could also create a Small Business Innovation Research (SBIR)- and Small Business Technology Transfer (STTR)-like program for global development. Eleven federal agencies like the National Science Foundation and U.S. Air Force participate in SBIR/STTR, which provides companies with tiered funding to build new science and technology applications, from Phase I pilots to Phase III commercialization. The SBIR/STTR program has generated tens of billions of dollars in economic output while leading scientific breakthroughs in space and biotechnology. Congress recently voted to reauthorize the SBIR and STTR programs by a 441–8 vote in the House and unanimously in the Senate.

  Such a program would be distinct from USAID's [highly-effective](#) Development Innovation Ventures (DIV) program, which has generated a $17 to $1 social return on investments that support evidence-based solutions. A program focused on commercialization specifically could build the pipeline of next-generation innovators with a focus on developing high-impact, more market-based solutions to international development challenges. An SBIR/STTR-like program for global development would help enable (and encourage) organizations based in USAID-supported countries to participate.

- ***Source new players and provide back-office support by working with existing networks***
  The U.S. Government could source new players by partnering more with scores of innovation hubs around the world. Organizations like Afrilabs have links to more than 500 innovation hubs across Africa, for example, which in turn have links to thousands more Africa-based innovators beyond that. Hubs can introduce U.S. Government agencies to the thousands of next-generation change agents that already have capacity – and are in a position to scale their impact. Hubs can also manage back-office functions for non-traditional USAID partners.

  At the same time, the U.S. Government could also get more innovative players in the door by expediting vetting for world-class organizations that work with other trusted partners with similarly rigorous vetting standards. For example, the vaccine agency Gavi, through its INFUSE program, connects countries with specialized needs with more than 100 fit-for-purpose innovators that have "scalable, high-impact, proven innovations." USAID can do more to work with these same types of organizations.

- ***Source existing advanced science and technology investments***
  The U.S. Government funds many Advanced Research Project Agencies (ARPAs) at agencies like the Department of Defense (DARPA), Department of Energy (ARPA-E), and Department of Health and Human Services through its Biomedical Advanced Research Project Authority (BARDA). Many of the advanced science and technology applications developed within these ARPAs have applicability to global challenges. A few examples include advancements in renewable energy technology developed by ARPA-E, climate modeling tools at DARPA, and biotechnology developed by BARDA. While there has been some collaboration between USAID and these agencies in the past, Congress could make this link more formal to ensure we source more world-class science and technology to help solve global challenges.

- ***Put countries in the driver's seat by letting them pick vetted partners***
  Finally, many of the world's best firms already work directly with the countries and communities that USAID supports. But too often, when international contractors win large U.S. Government awards, the winning contractor will subcontract to *their* preferred partners, or they will do the work themselves. This increases costs and contributes to the development of parallel systems and/or displacement of other existing ones.

  Countries and community-level players should be put in the driver's seat to determine who they want to work with, especially if they prefer to work with a specific service provider, technology, or innovator to achieve a specific goal. When a country wants to work with an approved and vetted innovator, the USAID mission office in that country should be able to access designated centralized, regional, and mission-level resources to

work directly with the approved firm. The firm should not be forced to work as a subcontractor to the larger international firm since this creates financial disincentives for the larger firm to partner effectively with the smaller one.

The road ahead

Over the years, administrators of both parties, including Raj Shah, Gayle Smith, Mark Green, and now Samantha Power, have attempted to overcome thorny obstacles to reform. We've seen positive signs:

- Two weeks ago, USAID announced its Burden Reduction Program, identifying dozens of ways to cut bureaucracy and unnecessary red tape.
- USAID also announced PSE Modernization, an initiative to recruit more private sector talent into the agency and design awards that are private sector-friendly.
- The State Department's Office of Foreign Assistance and USAID are leaning more into using evidence to inform their program design.
- USAID's *Centroamérica Local* initiative has used innovative procurement tools, like fixed-amount milestone-based awards, to bring down barriers to entry while also increasing results and accountability.

But there is much more to do. USAID can look left and right at the kinds of things that other federal agencies and large institutions have done to work with more innovative players. It can learn from how other donors and large institutions have considered similar challenges. The U.S. Millennium Challenge Corporation (MCC) models how we can put countries in the driver's seat, for example.

In June, we shared with USAID three actions the agency can take today, on its own, to drive more results, innovation, and accountability, which I have included as supporting materials to this testimony. Those ideas included:

1. **Increasing transparency and accountability**, including to require the recipients of large USAID awards to report the total award budget they devolve to subpartners, compared to what they promised originally. Make contracting less about "who you know."
2. **Prioritize funding for evidence-based solutions**, including by prioritizing investments for the best solutions supported by the Development Innovation Ventures (DIV) unit and by co-investing in evidence-based solutions supported by other trusted donors like the Global Innovation Fund.
3. **Bring down barriers to entry by increasing the use of innovative procurement tools** like milestone-based awards and soliciting concept notes to start the application process rather than responses to complex jargon-laced RFPs.

We look forward to the agency's response to these proposals, which we vetted with past agency officials to ensure every idea was ambitious but achievable.

As discussed above, we believe that Congress has a role to play, too, including to regularly review and reform the architecture that governs U.S. foreign assistance. It should address many of the structural issues that have slowed reforms of the past, including budget flexibility and fungibility issues, as well as help the agency recruit a more diverse workforce, including from the private sector, by easing constraints on the agency's Operating Expenses account. Otherwise, we cannot expect systems set up in the 1960s to be well-equipped to meet the scale of the challenges of the 2020s.

There is a new generation of innovators solving the world's hardest problems. Given the scale of the crises facing the world today, we need to work more closely with these problem solvers rather than counting on the status quo to keep up. We look forward to working with you to bridge this divide.

Thank you.

Submitted supporting materials:

A) Three things USAID can do right now to prioritize innovation and accelerate impact
B) Unlock Aid 2023 Policy Recommendations