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**House Foreign Affairs Subcommittee on
International Development, International Organizations,
and Global Corporate Social Impact**

“Innovation in Development Policy: Maximizing Impact and Results”

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Chairman Castro, Ranking Member Malliotakis, and distinguished members of the subcommittee – thank you for convening this timely hearing on the role of innovation in global development. I would particularly like to applaud the House Foreign Affairs Committee for recognizing the importance of international development by establishing this new subcommittee. I also want to thank the Chairman and Representative McCaul for their leadership in introducing the Global Development Lab Act of 2016 and moving it through the House on a bipartisan basis. The bipartisan support for both foreign assistance and the importance of innovation has been a foundation of America’s strong leadership abroad and security and well-being at home.

Now, more than ever, we must redouble our investment in innovation for international development. Effective foreign assistance is essential to building the global health and prosperity that will ensure the flourishing of the American economy, the well-being of the American people, and the influence of the United States in the face of a more assertive China. While real progress has been made towards the Global Goals that were adopted by 193 countries including the United States, our progress was already falling short, even prior to the Covid-19 outbreak. Now, over 100 million more people are estimated to have been pushed into extreme poverty, many existing interventions have been severely curtailed, and as the Goalkeepers 2020 report put it, “we’ve been set back about 25 years in about 25 weeks.” There is no clearer reminder we could have had that we live in a dynamic world that calls for dynamic solutions. It is an opportunity for America’s unmatched and longstanding preeminence in technology and innovation to shine.

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Before I go any further, I should define innovation. “Innovation” has perhaps become one of the most overused buzzwords in the English language. Everyone seems to want innovation these days, but few people know exactly what that means. Sadly, the true intent of innovation has been overshadowed by the common misperception that it involves chasing after the next shiny new thing. I appreciate that the title of this hearing speaks to “maximizing impact and results” as that is what I believe we need to ground ourselves in – innovation is ultimately finding better ways to deliver better results to more people.

I will first share a very brief background on the U.S. Global Development Lab (the Lab), then offer three recommendations for further capitalizing on the power of innovation in USAID’s work and how Congress can support those efforts.

The U.S. Global Development Lab

I had the privilege of serving at USAID as Chief Innovation Officer and the first Executive Director of the Lab. The Lab operated under a two-part mission: to produce breakthrough innovations and to transform the way we do development itself by making it more open, more data-driven, and more able to take smart risks. To date, the Lab has pioneered new mechanisms for funding innovation, invested in the power of digital technologies for development, partnered with researchers and universities at home and abroad, and harnessed the power of the private sector. The authorizing legislation passed by the House sent a strong signal to the agency and helped open minds to embracing these powerful tools and approaches.

Innovation pays off. One of the Lab’s flagship programs is Development Innovation Ventures (DIV). In contrast to traditional programs which typically involve multimillion dollar awards based on a predetermined design implemented over three to five years, DIV deliberately sought out potentially transformative solutions through a tiered, evidence-based approach. Here is how it works. In the first stage, we cast a wide net and take a calculated risk on new ideas and new teams with smaller grants of around \$100k. Then, based on data, we double down on the ones that show traction with a larger grant of about a million dollars. Finally, for the select few that prove both strong evidence of efficacy and the potential for massive scale, we make a stage three investment of up to five million dollars, to help them transition to other sustainable sources of funding.

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One example of how taking an early risk can lead to a big payoff is Zola Electric (then Off-Grid: Electric), a Tanzanian company that provides clean energy to low-income communities through a pay-as-you-go service using mobile money. At the time of the Lab's initial \$100,000 grant, this was still a high potential, but highly speculative business model. Since then, Zola has gone on to become the first organization to receive all three tiers of DIV funding (totaling approximately \$6 million), which in turn helped catalyze over \$200 million in debt and equity investments.¹

Looking at the performance of the DIV portfolio as a whole is even more important. And, the results are impressive. A recent study by Nobel Laureate Michael Kremer, co-founder of DIV, analyzed the first three years of DIV's investments (2010-2012) and concluded that, as of 2018, the social benefit derived from the four most successful innovations alone had already exceeded \$86 million – representing over five dollars' worth of social return for every dollar invested. To put this in perspective, this reflects a social rate of return of over 77%, multifold more than the estimated 10% return typically achieved through foreign aid.²

For further details on the programs and accomplishments of the Lab, please see the fact sheet I have submitted as an addendum.³

Recommendations

U.S. foreign assistance has benefited from strong bipartisan support for innovation across both Democratic and Republican administrations. In recent years, this has included standing up the U.S. Global Development Lab; a transition to the new Innovation, Technology, and Research Hub (ITR); and supportive policy updates that have incorporated digital technologies, private sector engagement, adaptive management, and more flexible procurement practices into USAID's guidance.

To further enhance the efficiency and effectiveness of U.S. foreign aid by harnessing the power of innovation, I offer three recommendations: mainstream successful tools and approaches across our development agencies, invest in the next generation of breakthroughs that will continue to drive progress, and increase flexibility to drive performance across all of our foreign assistance.

¹ <https://impactalpha.com/zola-secures-20-million-debt-funding-for-off-grid-solar-expansion/>

² https://scholar.harvard.edu/files/kremer/files/sror_div_19.12.13.pdf

³ <https://www.usaid.gov/sites/default/files/documents/15396/Lab-Fact-Sheet.pdf>

1. Mainstream successful tools and approaches

The Lab has incubated a number of valuable tools and approaches that have now demonstrated a track record of delivering results across multiple sectors, contexts, and geographies. While it was important to have a protected space for experimentation when these were new and unproven ideas, it is also important to graduate successes so that all foreign aid investments benefit from the latest best practices. This will require a concerted effort, not only from the Lab, but from staff across all international development agencies.

The good news is USAID has already been moving in this direction and can build upon the progress made during the last Administration. As former Deputy Administrator Bonnie Glick testified last month, as part of the USAID transformation, “the Agency elevated the role of innovation, taking it out of the small Global Development Lab, and featuring it in the new Bureau for Development, Democracy, and Innovation in the form of the Innovation, Technology, and Research Hub.” This organizational shift, only recently finalized, sets an expectation that innovation will no longer be confined to the silo of the Lab (which manages less than 1% of resources) and will instead become core to USAID’s work.

Fully mainstreaming a best practice typically involves issuing an agency-wide policy, setting expectations and targets for all operating units, building staff capacity, and establishing an institutional home that serves as a focal point. One good example is private sector engagement, which was formerly a division of the Lab. Today, it is housed in the Private Sector Engagement Hub in the Bureau for Development, Democracy, and Innovation (DDI). To elevate its importance, USAID released a [Private Sector Engagement Policy](#) in 2018 with forward leaning guidance, an agency-wide call to action, and a mandate to work with the private sector as an essential strategy for achieving development objectives. This policy is supported by domain experts in the Hub who share best practices, lead trainings and convenings, and build capacity across the agency. Similar structures have been put in place for non-Lab related cross-cutting priorities such as faith-based initiatives, gender, and youth.

Other successful Lab initiatives are also in various stages of integration across USAID, and would benefit from encouragement by leadership and Congress to be mainstreamed across the agency more quickly. Perhaps furthest along is the use of digital technologies, which was significantly boosted in the past year due to the operating constraints that arose during the pandemic. Many digital tools have

proven effective in reducing costs, expanding reach, and streamlining operations including the use of mobile money, geospatial analysis, and real-time data collection. The launch of USAID's first [Digital Strategy](#) last year has further cemented this progress. To fully institutionalize these gains, ongoing leadership and support for these now established technologies should be moved out of the Lab and into a unit intended to support ongoing programming, perhaps in DDI or the Bureau for Policy, Planning, and Learning (PPL).

Despite their proven track record, most of the Lab's innovation mechanisms have not yet been widely deployed. This includes tiered funding models such as DIV, incentive prizes, and challenges – all of which are designed to elicit potential breakthroughs or more cost-effective solutions where current approaches are falling far short of the need. Between the dynamic environment and global setbacks, these approaches are needed more than ever. Yet, as they require a more fundamental shift in program design, further policy guidance, prioritization, and technical assistance will be needed to drive adoption.

Beyond the direct work of U.S. government agencies, the impact of our foreign assistance can be vastly multiplied through partnerships that can spread out risk while garnering broader support to scale successes. The Global Innovation Fund (GIF) is a powerful example, which builds on the DIV model and has drawn in significant multilateral support. I will defer to my colleague and the CEO of GIF, Alix Zwane, to share more about their work.

Congress could raise the profile and prominence of these transformative approaches by recommending and authorizing the positions of Chief Innovation Officer and Chief Digital Officer at USAID, Millennium Challenge Corporation (MCC), and U.S. International Development Finance Corporation (DFC). These senior roles would bring expertise and leadership to drive out-of-the-box thinking and adoption of digital technologies, respectively, across all aspects of our foreign assistance. Congress could also extend innovation incentive award authority on a permanent basis with increased caps. Finally, Congress could encourage the mainstreaming of innovation mechanisms (such as challenges, DIV-like tiered funding, or incentive awards) by asking development agencies to issue policy guidance for their adoption and periodically report back to Congress on their use in program design.

2. Invest in “the Lab” for the next generation of breakthroughs

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The U.S. Global Development Lab was envisioned as an incubator for new ideas, tools, and approaches. As the Lab's original work matures, this mission will only continue to be fulfilled if successful initiatives graduate and unsuccessful ones are discontinued, such that new space is freed for the next generation of breakthroughs. Whether the new Innovation, Technology, and Research Hub (ITR) becomes the institutional home for mainstreamed approaches or the nexus for incubating new ones, I believe a clear separation between these two mandates would better enable each to thrive.

The "Lab", wherever it is housed, should redouble its focus on its charter for transformational change by exploring new opportunities to leapfrog our existing efforts in global development with tools and approaches that have the potential to dramatically increase our impact and scale. To do so, it will require flexible funds to explore more speculative ideas, with the expectation that some will become game changing while others will fail. Unfortunately, the discretion to take smart risks that had been key to the Lab's success has eroded over the years and the budget is now dominated by earmarked funds (including both traditional sectoral directives that are allocated to the Lab and earmarks of legacy Lab programs that limit space for new ones).

There are a number of promising areas that are prime for further exploration. With the new DFC now operational, there are a plethora of possibilities for increasing our use of blended finance. Building on the first few implementations of Development Impact Bonds (a performance-based instrument for financing programs) at USAID, a wider range of outcomes-based payments could be explored, including lighter-weight mechanisms such as outcomes bonuses. In concert with the updates to the [ADS 201 Program Cycle](#) guidance in 2020 to better integrate Collaborating, Learning, and Adapting (CLA), it is worth researching improved tools for rapid-cycle evaluation that can accelerate feedback loops and thus the ongoing performance improvement of programs. And, of course, technological advances continue to evolve at a breakneck pace and will need to be constantly evaluated for applicability to improving the design and implementation our foreign assistance.

We all know that companies must invest in research and development (R&D) to stay competitive and that the United States' historical investment in R&D has fueled our nation's innovative edge. Similarly, to maximize the effectiveness and influence of our foreign assistance, we need flexible funding to test, adapt, and iterate so that we can produce the next generation of breakthroughs. Congress can meet this need by directing a modest pool of unearmarked funds to

R&D through a reinvigorated Lab. In addition to funding, flexible hiring authorities, such as Schedule A and B, are also needed to build a team with expertise in innovation and technology, coming from diverse backgrounds. Fresh ideas require fresh thinking.

3. Increase flexibility and smart risks in foreign aid

USAID is one of the best development institutions on the planet. During my time at the agency, I was constantly impressed by the expertise, passion, and talent of staff around the world. Yet, even the most dedicated were hampered in their ambitions by excessively burdensome rules, regulations, restrictions, and risk-aversion. We need to embrace a constant drive for better performance and greater scale as an essential component of *all* U.S. foreign aid. There could be no better reminder of the need for innovation than the extreme uncertainty and devastating setbacks over the past year. Even in the absence of such a singular event, our world is changing ever faster given the forces of globalization, political instability, climate change, and technological advances. To keep up, let alone get ahead, we must retool our foreign aid to be more adaptive, more collaborative, and more forward looking.

As Bonnie Glick testified, in FY2020 “89% of all sectoral and programmatic funding was encumbered by ‘hard’ or ‘soft’ directives,” hampering creativity, responsiveness, and an entrepreneurial spirit. I would venture to guess more time is spent at USAID navigating the layers upon layers of earmarks than seeking better solutions. If the Lab had been hamstrung with directives at its inception, many of its accomplishments may never have been realized. We now have proof of the payoff that comes when we allow for creativity. In fact, the flexible funding available to other development agencies such as MCC and Overseas Private Investment Corporation (now DFC) has been a key element of their successes.

Think of it this way. If you hire a chef to cook a gourmet meal for your friends, and you give them restricted line-item budgets of fifty dollars for meat, twenty dollars for vegetables, ten dollars for potatoes, etc. (where savings in one category can't be used for another) – you're going to have one frustrated chef with a limited range of options for the menu. Instead, if you provide the chef with a total budget of a hundred dollars and a goal of feeding and delighting six people, the chef can apply their full range of creativity to craft a delicious meal, taking into consideration what is in season, what is on sale, along with any dietary restrictions. People thrive when we give them a clear objective, allow them to pursue that goal

based on their expertise, then hold them accountable for the results. Agencies and their implementing partners are no different.

A common concern with flexibility is accountability. That is, if we don't direct where the money is spent and track what is done, then how do we know it is not being wasted? The answer is by focusing on results and incentivizing an entrepreneurial drive to seek out ways to deliver greater impact to more people.

Thus, I would encourage Congress to **make directives more open-ended and outcomes focused, increase flexibility, and shift towards measuring results rather than predefined activities.** Focus on *what* you want accomplished rather than *how* it is accomplished. This will unleash the ingenuity of the talented staff to get the job done and more. Mechanisms already exist in the Federal Acquisition Regulation (FAR) for performance-based contracts, but they are underutilized due to both lack of expertise and misaligned incentives. I would ask Congress to add report language encouraging USAID to incorporate performance-based approaches into grants and contracts, then ask the agency to report back on the steps taken to increase flexibility in its procurements. In addition, Congress should take steps to shift from setting priorities via earmarks and directives to instead holding agencies accountable for their impact and results. That is, rather than dedicating dollars for food security, education, or fighting malaria, specify the reduction in hunger, increase in literacy, or decrease in disease incidence that is the desired outcome. A good example of this was Feed the Future, where USAID, following consultations with Congressional staff, put forth a five-year target to reduce the prevalence of poverty and stunting of children in targeted areas by 20% – enabling the agency to stay accountable to a clear impact goal while maintaining the flexibility needed for innovative programming.

One concrete first step in this direction could be to ask that a small percentage (say 2-5%) of all large programs be set aside for performance improvement and innovation. Thus, for a \$10 million program, \$200-500 thousand would be dedicated to finding ways to make the other \$9.5 million go further. As a point of comparison, USAID currently suggests that approximately three percent (3%) of program dollars be allocated to external performance and impact evaluation. Shouldn't we go beyond simply understanding how well a program works to finding ways to make it substantially better? For example, we could test pathways to massively scale through government adoption or new business models, integrate digital technologies to decrease costs and increase reach, fund innovative ideas by local entrepreneurs and researchers, or experiment with altogether new approaches that could leapfrog the status quo (perhaps through a

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challenge or prize to address a current bottleneck in the system). Such a mechanism would ensure that all programs have the flexible space to look beyond immediate delivery requirements and make the investments needed to achieve transformational impact and scale.

American Leadership in Global Progress

When I first joined the federal government ten years ago, I sought out the advice of colleagues who had made the leap from the private sector to the public sector before me. One senior government official shared a perspective that stuck with me: “in government, you can’t get fired for doing nothing, you can only get fired for doing something.” In other words, the message was – don’t stick your neck out and take any risks.

This is a moment when American leadership is desperately needed. The problems the world faces require agility, fresh thinking, and smart risk taking. These are qualities the United States holds in abundance as an entrepreneurial nation with deep reservoirs of talent. I would respectfully ask the subcommittee through both your words and actions to send a strong message that we *do* want our development agencies, their capable staff, and our multitude partners to stick their necks out and find better solutions that will meet the moment and thereby secure America’s health and prosperity.