Witness Statement of Degan Ali

Executive Director, Adeso

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Hearing on
"Shifting the Power: Advancing Locally-led Development and Partner Diversification in U.S. Development Programs"

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I am the Executive Director of Adeso, a small local NGO based in Kenya that works in Somalia, Kenya and previously in South Sudan. I provide my statement based on my experience as a leader of a local organization that has been at the forefront of implementing humanitarian and development programs directly with communities in partnership with larger INGOs and some donors, including funding from USAID. This experience has informed much of my thought leadership in the localization and shifting the power movement and Adeso's work changing the aid system. Adeso pioneered cash transfers in 2003 and later trained American and other INGOs and UN agencies on how to do cash transfers, with the support of USAID. Adeso also founded the NEAR Network, the first global south network of local organizations working to transform the humanitarian and development architecture to be more locally led and resourced. Adeso led the global advocacy on localization and decolonization of aid for the past 10 years. It was during the World Humanitarian Summit that Adeso advocated for the establishment of a target and initially proposed 20% of funding to be directed to local organizations by 2020. This target was later approved and increased to 25% as part of the Grand Bargain.

The Grand Bargain target of 25% is important because only .2% of all humanitarian funding goes directly from bilateral/multilateral donors to local organizations and about 2-4% of development funding. However, through an indirect partnership with donors, these organizations are often doing the bulk of the work in implementing humanitarian and development programs for UN, American NGOs and contractors. In humanitarian setting these organizations are risking their lives in conflict zones to ensure that food or cash gets to the most vulnerable people, yet these organizations often get the least amount of funding. The power dynamics between American NGOs and contractors and UN agencies is manifested in that the vast majority of projects are designed without the engagement or involvement of the ones who understand the local communities the best, the local organizations. Lastly, the local organizations delivering the bulk of services and assistance to communities often have little to no decision making power at national or international level. When donors create structures to coordinate their humanitarian response in a particular, they do it through such groups such as the Humanitarian Country Teams or the Inter-Agency Steering Committee (IASC) or Clusters. These international and national coordination structures are usually dominated by the UN and International NGOs (American and European) with very little representation and leadership of local organizations to participate or steer decisions. So here we have 3 major consequences of not doing locally led development.

1. Inefficiencies and Cost - There are layers and layers of intermediaries between the donor and the local organization in the form of a UN agency who may then contract an INGO who then contracts a member of their INGO family (e.g. such as CARE or Save the Children US will give the funding to another family member) and then it is contracted to a local organization. These inefficiencies in the system are costly and mean wastage of resources as organizations take a portion of the grant for their operational costs in each layer – ensuring that what reaches the communities has been reduced significantly. The same level of inefficiencies can be said for contractors. The alternative is that USAID funding will go directly to local organizations without any intermediaries. The reality is that the cost structure of local organizations is extremely less than an American NGO, UN or contractor. The same activities implemented by a local NGO as opposed to an American NGO, UN or a private contractor would result in significant cost saving for USAID for various reasons including the size of local organizations and reduced salary scale.
2. Impact – If projects and programs are being designed with no or limited engagement of the local organizations who understand the context and the communities the best, it means that USAID's funding is having less impact than desired. There have been countless projects funded by USAID and other donors that have wasted funds on infrastructure not being utilized by the communities or activities that have no lasting benefit.
3. Fairness/power – Imagine during Hurricane Katrina or Sandy that organizations from France all of a sudden swooped in to respond to the crisis. They excluded American NGOs from local coordination meetings and even wanted all meetings to be held in French and not English. They took over all decision making forums marginalizing The American Red Cross and other NGOs, State authorities and even FEMA. Well this is the reality of what local organizations and governments experience every day during a crisis in their countries. What would never be accepted in the US is common place treatment in Africa and Asia.

These are 3 critical reasons for committing to locally led development. While the world is collectively trying to reorient towards more locally led approaches, the US has an opportunity to be a global champion of locally led development. In addition, USAID is a signatory to the Grand Bargain and has committed that 25% of its humanitarian and development funding to go to local organizations by 2020, a commitment that it has not been met. Lastly, locally led development is simply the right thing to do. It is something that more and more countries are wanting as they exercise their sovereignty and it is something that global south organizations have been demanding now for almost 10 years. These are demands that can no longer be ignored.

Adeso was one of those organizations that from its founding in 1991 until 2008 could not break through the glass ceiling and get direct funding from USAID or any bilateral donor. However, due to the strong belief in locally led humanitarian response from one person at USAID/OFDA, Adeso became a partner in 2008. From the moment we became a partner, we did not receive any training or support in understanding USAID rules and regulations. We were left on our own to navigate the massive and complex machinery that is USAID rules and regulations. We made several very expensive and costly mistakes along the way due to our ignorance and even the ignorance of the USAID program people we would seek advise from.

As a local partner to USAID, we also were able to experience first-hand many of the challenges and bureaucratic processes within USAID that hold the agency back from effectively partnering with local organizations. For example, in 2012, Adeso participated in a competitive Request For Proposal (RFP) and won a US$45 million resilience program operating in Kenya beating many American and other INGOs. Some of the organizations that we beat during this competitive process were organizations we had asked during the lead up to the RFP if they would be interested in having Adeso as a partner/sub-awardee and they all refused. I inquired later from a friend who was part of the procurement team, why Adeso won this grant, which was not only a shock to us but all the competitors and even many at the Kenya mission. He said it was because we had the most innovative and sound proposal that seemed to understand the context the best. Adeso Kenya is the legal entity that applied for the RFP and won the RFP. However, when Adeso Kenya was about to sign the agreement, the Contracting Officer at USAID explicitly demanded that this grant be signed with Adeso's 501(c)3 entity, Adeso USA a small organization that existed only for fundraising purposes and had one part-time staff at the time. The organization had no capacity to manage a $45 million USAID award. We informed the CO that the entity that applied for the RFP was the Kenya entity, and that the US Entity had no capacity to manage the award. He didn't care. We even told him that the Kenya Mission had a 30% target to meet in local procurements as part of the Forward strategy and this award being signed with Adeso Kenya would help them meet that target. He didn't care. We told him that the USA entity didn't have an established NICRA and was never assessed by USAID. He didn't care. Finally, he said that Adeso had to sign the agreement as Adeso US or forfeit the agreement. He further said that he was making this requirement because "if something went wrong, he could come after Adeso in the US".

While we realize our experience is likely a result of one risk-averse Contracting Officer, the story points out a key challenge USAID will have to face – how to overcome the internal risk/reward calculation inside the agency that would hinder Contracting and Agreement Officers from working with local organizations in a more holistic way. The decision by the Contracting Officer to sign the agreement with a shell that was the US entity was the original sin that spawned 4 years of problems around which rules and regulations applied to Adeso when implementing this award (as an American entity or the rules that apply to a local entity) and how to recoup NICRA for which entity. Eventually after the end of the project, USAID commissioned a close out audit with Ernest & Young (EY) that was poorly managed by both USAID and EY as neither was able to clarify to Adeso which entity was being audited – Adeso US, the prime or Adeso Kenya the real entity on the ground who was doing all the implementation and oversight. The lack of clarification on this really important issue resulted in an audit that led to significant disallowance based on mis-interpretation of the rules. Millions were disallowed, not because the actual costs were not substantiated through supporting documents and therefore there were problems with these documents but rather with misapplication of USAID rules. Adeso refused to sign the audit report and strongly disputed the findings. Adeso then initiated an appeal process with USAID in DC which has been on-going now for 4 years. Another close out audit commissioned by USAID for the same project with PWC (different time period) did not find any of the same issues identified in the EY audit. In fact, less than US$30,000 was disallowed by PWC in that audit of the same project as the EY audit. We have had independent finance experts, who were former USAID staff, review the EY audit and all the supporting documents and they have agreed with us that the audit was extremely flawed. We have informed USAID on many occasions that Adeso simply requests a repeated audit for the same project period as the EY audit and that even Adeso would pay the cost of the audit. This request has been denied on all occasions.

This experience has made it extremely difficult for Adeso to ever work with USAID as an important global partner on cash, regional partner with expertise on humanitarian response and an important regional partner on resilience. However, the collective experience on both the humanitarian side and development work with USAID has given Adeso an important view of some of the obstacles to locally led development. Overall it should be noted that there are some amazing people who work with USAID and are very committed to improving how USAID works shifts more resources to local partners. However, many barriers exist that make this aspiration very difficult to be realized:

1. There is no systematic onboarding process for all local partners to ensure expansive capacity building on USAID rules and regulations. This should begin at the capacity assessment/due diligence assessment that is done on all partners followed by a long term investment in addressing their gaps to ensure compliance with USAID rules and regulations.
2. USAID missions lack enough specialized personnel to support the capacity development of partners or to manage the many smaller local grants. The missions are often under staffed and overwhelmed. This is one of the reasons they don't want to manage multiple partners with small awards. Congress can support USAID and other development agencies engaging in more direct local partnerships by supporting the staffing of those agencies.
3. Large awards beyond the capacity and maybe the risk level for a local organization. Very few local organizations can manage a $45 million award. Adeso could have managed such a large award effectively if we had been given the support needed but the moment we began the partnership we were met with distrust and put in a box (Adeso USA) that meant that falsely classified Adeso as an American entity thus that we had sufficient capacity to manage a USAID award, which was not true. These large awards and RFP/RFAs only incentivize the agency to work with contractors and INGOs as most local organizations don't have the capacity to submit a competitive bid nor manage an award of $20 million and more. Some of the reason for this desire for large awards is because of capacity constraints at missions and DC to manage many smaller awards rather than one big award. This is a reality both for the development assistance as well as the humanitarian teams.
4. There is a need for USAID to be more flexible and work with pooled funding mechanisms where donors can put their funds together to be managed by a fund manager. The largest example of this in the humanitarian space is the UN/OCHA led Country Based Pooled Funds where all the major donors give a portion of their humanitarian funding to OCHA to then grant to both INGOs but also to local organizations. However, pooled funding mechanisms include the Global Fund for Aids and TB and other World Bank managed funds. There is a need to establish more of these funds at national level that are exclusively to support granting to local organizations which removes the burden of USAID managing the grants and relationships with hundreds of partners, rather this would be done by the fund manager. There is an internal misunderstanding that this is not possible but it seems that this may be as a result of poor interpretation of the rules as there are missions that have established humanitarian pooled funds such as Pakistan where Concern manages a pooled fund for local organizations.
5. There has to be more behavior change to make staff understand the financial and impact level benefits of working with local partners. Currently, while there are some staff who are champions of this approach, there are equally many who see local partners as just fraud in waiting. Of course, this presumes that no such fraud occurs with American NGOs or UN or contractors when we know that has happened on many occasions.

6. Require that ALL American and European NGO partners have a 3 year exist strategy out of a country where they start off as a prime to a local partner but transition to being the sub-contractor after 3 years and the INGO provides only technical support to the local partner. After the 3 years, both humanitarian and development assistance should be led by local organizations, universities, governments and private sector while the American/European NGO or contractor has transitioned to being a sub-contractor of a local partner to provide technical assistance as needed.
7. USAID needs to develop strong tracking tools on how much of its humanitarian and development funding does go directly to partners. It should also provide incentives for the missions that increase their % funding every year while simultaneously investing in institutional capacity strengthening of their partners. The missions that perform the best on various metrics should be rewarded and given public accolades.
8. Locally led development and its relevant metrics should be part of the Job Description of the Mission Director, Deputy Mission Director, CFO/Controller, Contracting Officer, and Regional BHA Advisors