Is Local Spending Better?

The Controversy over USAID Procurement Reform

By Casey Dunning   November 2013

Center for American Progress

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Introduction and summary

Procurement reform is not a topic that usually quickens the pulse. But efforts at the U.S. Agency for International Development, or USAID, to utilize other countries' local governments and organizations to carry out its programs on the ground have triggered a debate that will ultimately affect millions of lives in the years to come.

Over the past three years, USAID has undertaken an initiative to direct more of its projects around the globe to local partners in the countries in which it works. The agency has referred to these ongoing reforms under a series of different names, including implementation and procurement reform, or IPR; sustainable partnerships; and local solutions. Despite the evolving nomenclature, the basic premise of the effort has remained the same: USAID is seeking to directly work with and build the capacity of local governments, civil society, and the private sector in the countries in which it operates. USAID maintains that such a shift will make development efforts more effective, more enduring, and less costly.

USAID began these reforms after recognizing that it was extraordinarily dependent on large American for-profit contactors and nongovernmental organizations, or NGOs, to carry out its work. In fiscal year 2010, the first year of procurement-reform implementation, almost 65 percent of USAID's grants and contracts flowed to U.S.-based organizations while less than 10 percent of USAID's development work was carried out with benefiting country partners in a top-line implementing role.

Given the levels of funding involved, it is no surprise that from its inception, procurement reform has been contentious and that there have been a series of distortions around its rationale, goals, and efficacy. This report unpacks these debates and better situates USAID's procurement-reform efforts within the broader aims of aid effectiveness and development impact.

To date, USAID has pursued different approaches for its two key partners in local procurement: national governments and local organizations. This report assesses the strategies employed for dealing with both groups and identifies the potential benefits and challenges behind each of them.

Much of the debate to date has predictably played out as a tussle over funding rather than a discussion of which approaches to development are most effective. Critics of USAID's reform efforts have claimed that using local systems more extensively will increase risk and decrease levels of accountability, but have provided little evidence to that end. The most valid criticism has centered upon the inability of the U.S. government to pursue legal action against non-U.S. organizations should they theoretically abscond with funds. USAID's due diligence in repeatedly assessing the fiduciary capacity of local institutions, as well as efforts to build in multiple accountability mechanisms, have helped ensure that grants and contracts directed to local organizations have the same level of oversight and accountability as those directed to their international counterparts.

By FY 2015, USAID hopes to direct 30 percent of its annual grants and contracts to local partners, in effect tripling USAID's local procurement efforts from FY 2009.[1] USAID should focus on six distinct areas to further institutionalize its reform effort and ensure that local procurement reform achieves development impact before 2015:

1. **Clearly define the goals of local procurement reform.** USAID needs a stronger narrative around procurement reform. If USAID's goal is to ultimately have every country graduate from the need for U.S. foreign assistance, developing the capacity of local governments and organizations is a logical step in moving away from dependency toward self-reliance. All of USAID's funding streams should be held to a basic test: Are they cost effective? Are they sustainable? And do they make a lasting impact?

2. **Make the data around local procurement-reform efforts more transparent.** As a part of its reform efforts, USAID has built-in mechanisms that give local grants and contracts a high level of fiduciary scrutiny, but it has not fully shared this analysis with the public. To the furthest extent possible, USAID should publicize information about its risk-assessment processes for both governments and local organizations. USAID should also continue to make disaggregated data around its procurement-reform efforts public, as it did for FY 2012.

3. **Build local procurement plans into contracts with traditional donors.** USAID currently has no way of tracking the local subgrantees of contracts awarded to international implementers, and it needs to develop this capacity. By demanding these data and making them public, USAID can encourage local capacity-building efforts by international contractors and NGOs.

4. **Ensure that staffing and training needs keep pace with reforms.** USAID requires a cadre of well-trained procurement and contract specialists to work effectively with local partners. USAID needs to effectively prioritize its training and personnel development so that field staff are as comfortable working with local groups as they are with international contractors.

5. **Focus on the politics behind local procurement reform.** Local procurement efforts carry a number of benefits, including lower costs and greater potential impact. Both development experts and fiscal hawks should support procurement reform because it contains a built-in exit strategy for successful programs. Yet USAID still needs to broaden political support for procurement reform. While U.S. for-profit contractors will likely always resist procurement reform, USAID and the U.S. NGO community should be able to find considerable common ground on the topic, if U.S. NGOs are brought to the table as genuine partners.

6. **Use local procurement reform to be more selective.** The screens applied during the risk-assessment frameworks for procurement reform can also be effective in identifying where the United States should direct assistance resources in the first place. USAID should utilize procurement-reform efforts to help the agency be more selective and focused on where aid dollars are directed.

By better defining the rationale behind procurement reform, increasing transparency, and using current mechanisms to expand its partner base, USAID can greatly increase its partnerships with local institutions while also building support for this critical reform within the U.S. development community.

The evolution of USAID's efforts

The roots of the procurement-reform effort sprang from two major administration reviews of global development policy: the Presidential Policy Directive on Global Development, or PPD, issued in September 2010; and the Quadrennial Diplomacy and Development Review, or QDDR, released in December 2010. The PPD defined the ultimate goal of development as "creating the conditions where development assistance is no longer needed," while the QDDR pushed technical reforms designed to strengthen USAID. In response to the discussions that these reviews generated, USAID launched an ambitious set of reforms in November 2010, known as USAID Forward.

Implementation and procurement reform emerged as a central pillar of USAID Forward. The rationale behind local procurement rested on the fact that USAID could achieve better and more sustainable results if its assistance strengthened the local institutions and actors that were ultimately responsible for transforming their own countries.

Initial language from the USAID Forward rollout identified the specifics of procurement reform as follows:

> *USAID will change its business processes—contracting with and providing grants to more and varied local partners, and creating true partnerships to create the conditions where aid is no longer necessary in the countries where the agency works. To achieve this, USAID is streamlining its processes, increasing the use of small businesses, building metrics into its implementation agreements to achieve capacity building objectives and using host country systems where it makes sense.[2]*

The need for local procurement reform sprang from the hugely unbalanced nature of USAID's partner portfolio. After deep budget cuts in its operating expenses in the 1990s, USAID was essentially reduced to a contracting agency with limited in-house development expertise. By FY 2010, 65 percent of program funds went to U.S.-based implementers, and these U.S.-based organizations often operated with high overheads.[3]

To address this imbalance and offer specific goal metrics for procurement reform, USAID is aiming to direct 30 percent of USAID program funds to partner governments, local organizations, and local civil society in the countries in which it works by FY 2015. This goal would encourage a broadening of USAID's partner base and enhanced competition among international and local partners.

Unfortunately, USAID did not manage the rollout of procurement reform particularly adroitly, stoking the ire of U.S.-based for-profit and nonprofit implementers alike by a failure to consult on the contours of the effort. USAID would be spending its money differently, and that clearly would be controversial with the organizations that received the largest amounts of funding from USAID. Rightly or wrongly, American for-profit contractors and NGOs felt that they were being disparaged.

In January 2011, USAID Administrator Rajiv Shah was exceedingly blunt in arguing for reform:

> This agency is no longer satisfied with writing big checks to big contractors and calling it development. We've already accelerated our funding to local NGOs and local entrepreneurs, change agents who have the cultural knowledge and in-country expertise to ensure assistance leads to real local institutions and lasting, durable growth. All of this is part of the most aggressive procurement and contracting reform our agency has ever seen.[4]

In the same speech, Administrator Shah also lamented a development industry, akin to the military industrial complex, that was "full of incentives designed to prolong our efforts, rather than reduce them."

Many of USAID's U.S.-based partners reacted sharply to the plan. While these groups had always supported the concepts of local ownership and helping countries graduate from aid more rapidly, they also had very real concerns that shifting hundreds of millions of dollars to local partners would hurt their bottom line.

Making matters worse, USAID did not anticipate the strong reactions that procurement reform would galvanize and seemed to go out of its way to antagonize some of its partners at a time when these implementers were already looking at reduced funding. Many U.S. NGOs and contractors felt that USAID created an artificial divide between international and local organizations that failed to account for international partner expertise and capacity. USAID was also ill-pre-

pared to address important congressional concerns about the plan. As a result, Congress, which should have been an enthusiastic supporter of the reforms given their potential for cost savings and more effective development programs, was—and remains—skeptical.

But there were also vocal supporters of the new reforms. Coalition groups such as the Modernizing Foreign Assistance Network supported procurement-reform efforts to "create efficient local governments, thriving civil societies and vibrant private sectors, thereby making countries more accountable to their citizens while helping them 'graduate' from U.S. assistance."[5] Oxfam America praised USAID for "leading a renaissance … that puts poor people in the driver's seat."[6]

U.S. nonprofit implementers greeted the reforms lukewarmly, feeling that USAID's local procurement efforts largely ignored the significant contributions of U.S.-based NGOs and their existing patterns of work with local counterparts. The initial response of Interaction, an NGO umbrella group, enumerated the many contributions of U.S. NGOs around the world while also expressing "a hope to build on our partnerships with USAID in support of the administrator's new vision for U.S. global development."[7]

In contrast, U.S. for-profit contractors mobilized quickly in an effort to roll back the reforms before they could begin. Under the banner of the Professional Services Council, a Washington-based lobbying group, some 50 contractors formed the Coalition of International Development Companies and derided USAID for inaccurately portraying the value of for-profit development partners to their "mutual detriment" and employed a professional lobbying firm to help cement opposition to the reforms on Capitol Hill.[8]

Perhaps most importantly, USAID missed a crucial step in quickly cementing this reform by not clearly explaining the connection between procurement reform and more effective development practice and results. The focus was almost exclusively on the 30 percent that would no longer flow to U.S. organizations rather than the 70 percent of the budget that still would. Debates about how to make all of USAID's assistance more effective, more accountable, and less risky were largely absent.

Congress entered into the procurement-reform fray in April 2012, with Rep. Darrell Issa (R-CA) and the House Committee on Oversight and Government Reform expressing concern that "funneling grants directly to unaccountable and often corrupt foreign governments without the necessary safeguards" would lead to reduced program accountability and effectiveness. The committee also called for detailed fiduciary data around USAID's procurement-reform efforts.[9]

While the admittedly hostile congressional letter and subsequent examination were no doubt spurred in significant part by the for-profit firms opposed to reforms, the congressional scrutiny was useful in highlighting two crucial areas that USAID needed to address as it made the case for procurement reform: risk and transparency.

A clear strategy from USAID on how it planned to address corruption and accountability, especially as it ramped up funding directed through partner governments, should have been at the center of debates around local procurement. The history of U.S. aid transfers directly to partner governments is, at best, mixed. During much of the Cold War period, the United States showered money on corrupt, unaccountable governments, often based largely on geopolitical calculations. In the more modern era, the massive amount of aid to Egypt under military-dominated governments and the huge investments in Pakistan, Afghanistan, and Iraq during periods of poor and corrupt governance raised serious questions. USAID needed to demonstrate that it was willing to direct money to governments in the developing world that had earned that right by being democratic, accountable, and willing to make hard choices.

USAID incorporated a comprehensive plan in June 2012 to manage risk, tackle corruption, and promote accountability in its partnerships with local governments. The plan is based to a large degree on data and metrics that test government institutions and their fiduciary systems before resources are transferred.

The agency further operationalized their procurement-reform efforts through a comprehensive Experience Summit held in November 2012. The summit was a direct response to initial critiques and brought together USAID staff and implementing partners to build a baseline body of knowledge around country systems strengthening.

The agency has also worked to increase transparency around local procurement efforts, releasing the "USAID Forward Progress Report" in March and detailed implementer data for FY 2012 in October.[10] Before Rep. Issa's letter, USAID had not offered any detailed resource data on the breakdown of its implementers.

Congressional action on procurement reform

Local procurement-reform efforts have seen continued congressional attention, with explicit language in both the House and Senate's FY 2014 State and Foreign Operations Appropriations bills. Both versions include a section establishing limitations on direct government-to-government assistance, requiring congressional approval on all assistance agreements exceeding $10 million.

The legislation also calls for stringent transparency and accountability mechanisms, similar to those that USAID is already undertaking. Congressional members are keen to see assessments of a government's fiduciary standing and management capabilities, the establishment of clear and achievable objectives, existence of effective monitoring and evaluation systems, and the possibility that assistance be available on a cost-reimbursable basis.[11] Additionally, both bills call for the USAID administrator to suspend aid to any government that is suspected of either violating the aforementioned requirements or misusing funds.

The threshold will—and should—be up for debate as it introduces a potentially dangerous level of congressional micromanagement. The House bill further introduces a requirement that the secretary of state certify each government-to-government program, a condition that would make it nearly impossible for USAID to conduct these programs in a timely manner.

Absent the above provisions, the remaining requirements are not prohibitive for procurement-reform efforts; instead, they complement USAID's more specific requirements for direct government-to-government assistance.

While both bills take a risk-averse tone to procurement reform by noting the potential landmines in this undertaking, it is worth noting that the Global Partnerships Act of 2013 offers more positive language around the potential behind procurement reform. As a principle of assistance, the legislation notes that:

> When partner country systems are transparent, accountable and effective, the United States Government should use such systems for delivering assistance. When use of such systems is not feasible, the United States should establish additional safeguards and measures that strengthen rather than undermine country systems.[12]

Though this act is unlikely to pass, it nonetheless signals an important shift in tone on the U.S. approach to development assistance.

As a result of congressional pressure, USAID released implementer data for FY 2011, offering some staggering figures. In FY 2011, USAID obligated roughly $1 billion directly to the 25 largest foreign government recipients. By comparison, USAID obligated $3.7 billion to its 25 largest contractors. This imbalance was further exacerbated in FY 2012, when USAID obligated $669.7 million directly to the 25 largest foreign government recipients and $5.4 billion to its 25 largest contractors.[13]

The table below shows the top five contractors and foreign governments by FY 2011 and FY 2012 obligated amount.

TABLE 1
Top USAID allocations, FY 2011–2012 (in millions of dollars)

FY 2011				FY 2012			
Contractor	Amount	Government	Amount	Contractor	Amount	Government	Amount
Chemonics International	$732.1	Pakistan	$357.8	Chemonics International	$681.8	Pakistan	$461.0
Partnership for Supply Chain Management	$417.7	West Bank and Gaza	$200.0	John Snow, Inc.	$482.9	Afghanistan	$95.3
John Snow, Inc.	$396.3	Jordan	$196.6	Partnership for Supply Chain Management	$431.7	Georgia	$30.6
Development Alternatives, Inc.	$294.4	Afghanistan	$62.7	Development Alternatives, Inc.	$324.5	Uganda	$16.4
Berger Black Veatch Joint Venture	$261.4	Georgia	$52.4	Abt Associates	$319.2	Zambia	$6.8

Source: Author's calculations based on USAID budget and contracting data. ICTworks, "Where does USAID's Money Go?", available at http://www.ictworks.org/sites/default/files/uploaded_pics/2011/top-20-usaid-contractors-countries.pdf (last accessed October 2013); U.S. Agency for International Development, "Where Does the Money Go? Excel Spreadsheet," available at http://www.usaid.gov/documents/1870/where-does-money-go-excel-spreadsheet (last accessed October 2013).

In 2013, USAID rebranded its procurement-reform efforts as "sustainable development through high-impact partnerships." In its 2013 "USAID Forward Progress Report," the agency anchored these reforms around the central pillars of aid effectiveness and more clearly articulated how and why these shifts in funding were critical to better development results.[14]

It is worth noting, however, that USAID used the report to reiterate its commitment to direct 30 percent of program funds to local institutions by FY 2015. While this metric certainly is not the only measure of successful reform and does not indicate the results of development efforts, USAID must keep an ambitious target that allows it to keep moving forward with its local systems efforts.

Why shifting to local procurement is important

Despite the initial criticisms of USAID's reform efforts, the agency's move to increase its partnership with local institutions broadly reflects best practices in international development. If anything, the United States is still well behind the curve in adapting and institutionalizing such an approach.

In December 2011, the Global Partnership for Effective Development Cooperation out of the Aid Effectiveness Forum in Busan, South Korea—the fourth such global forum on aid best practices—urged donors to take advantage of "opportunities for local procurement, business development, employment and income generation in developing countries."[15] In anticipation of Busan, Brian Atwood, former chair of the Organisation for Economic Co-operation and Development, or OECD, Development Assistance Committee, pinpointed procurement as "the main issue to tackle on the donor side."[16]

Capable and accountable public financial-management systems are at the core of good governance for developing and developed nations alike. Improved public procurement processes allow countries to better manage not only donor resources but also all public resources, including natural resource and tax revenues that accrue to a government. Sound fiduciary systems encourage good and responsible governance as few other institutions can.

The underlying logic behind local procurement is a simple yet powerful one: By funneling development assistance through local organizations and governments, development leadership and capacity is centered in-country. The ultimate aim of U.S. assistance—or any assistance—is to help create sustainable governments, institutions, economic opportunities, and healthy citizens. It is not to ensure that development assistance continues in perpetuity.

Numerous studies have borne out the conclusion that using country systems strengthens those systems. A recent in-depth study by Eurodad, a network of European development NGOs, concluded that, "Using country procurement systems helps strengthen them as scarce aid resources are used to build the capacities of core state functions rather than on expensive and redundant parallel structures."[17]

This conclusion is not bound to a small set of stable, well-governed countries. An excellent series of reports from the Overseas Development Institute finds that localized aid can have enormous capacity-building effects while achieving the same development results as traditional assistance.[18] Surprisingly, they noted that local procurement can play a positive role in fragile states, not just middle-income countries.

When considered through this lens, local procurement offers a "double dividend" for development across the full spectrum of partner countries.[19] With a procurement process that focuses on local organizations and governments, partner countries benefit from increased job opportunities, resource flows, and capacity. This injection of funds offers a strategic boost to the local economy and workforce.

Perhaps the strongest rationale for smarter implementation and localized procurement practices is that they are inherently more sustainable. Again, if the ultimate goal of development assistance is to put aid donors out of business, then the projects, organizations, and institutions must be sustainable beyond outside support. This comes from putting local organizations and governments at the helm of development efforts rather than simply trying to import expensive international expertise.

Results to date

USAID has partnered with local governments and organizations since its inception, representing 50 years of engaging in these types of partnerships. What is new for USAID is the targeted scale-up of efforts after two decades of almost sole reliance on external contractors and implementers.

TABLE 2
USAID's local institution funding

FY 2010	FY 2011	FY 2012	FY 2013
9.7%	11.1%	14.3%	19.4%[20]

Source: Author's calculations based on a USAID report and FY 2013 USAID transactional data. See U.S. Agency for International Development, "USAID Forward Progress Report 2013" (2013), available at http://www.usaid.gov/sites/default/files/documents/1868/2013-usaid-forward-report.pdf; Foreign Assistance Dashboard, "U.S. Agency for International Development," available at http://www.foreignassistance.gov/web/Agency_USAID.aspx?budTab=tab_Bud_Impl (last accessed October 2013).

Each country will vary in its implementation of procurement reform, and it is vital to underscore that the 30 percent target is meant at the aggregate global level. USAID is not pursuing an increase of local procurement to 30 percent in every country in which it operates, but rather it is aiming to have an average of 30 percent of its total funding directed to these sources.

To reach the 30 percent goal, USAID is working with a host of new development partners. These new development partners will largely fall into two categories: partner governments and ministries, and local nonprofit organizations and businesses.

USAID recently released detailed FY 2012 data on where its partner entities are located. As Figure 1 indicates, USAID continues to largely partner with U.S.-based implementers to date and will no doubt continue to do so. Total funding to non-U.S. based vendors, which includes other donors and partners not necessarily based in the recipient country, did not exceed $2.3 billion from 2007 through 2011. By contrast, funding to U.S.-based entities reached $10.3 billion during this same period.[21]

The "non-U.S. vendor" category groups governments and local organizations together, but USAID has a different strategy and rationale for these two sets of implementers. How USAID approaches local procurement opportunities and chooses the types of implementers to directly award depends on the context and landscape of each country.
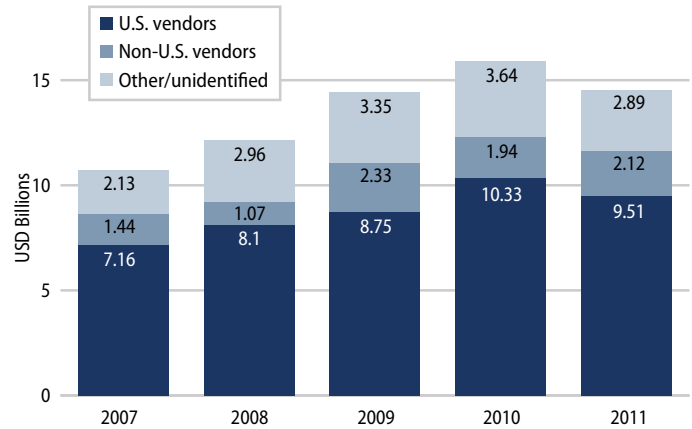
In countries where governance and civil society are both strong and capable, USAID may pursue increased grants and contracts with both the government and local organizations. In countries where the government has ineffective fiscal institutions, USAID is more likely to direct its increased funding through civil society while avoiding direct government contracts.

USAID's government-to-government assistance

Direct government-to-government financing is not a new funding modality for USAID, though its application over the past decade has been uneven, as Figure 2 shows. From 2007 to 2011—before USAID began its local procurement push—USAID gave an annual average of $920 million to partner governments. In FY 2012, the agency obligated $677 million directly to 41 partner governments; through the first nine months of FY 2013, USAID has directed $610 million to partner governments.[22]

- U.S. vendors
- Non-U.S. vendors
- Other/unidentified

	2007	2008	2009	2010	2011
Other/unidentified	2.13	2.96	3.35	3.64	2.89
Non-U.S. vendors	1.44	1.07	2.33	1.94	2.12
U.S. vendors	7.16	8.1	8.75	10.33	9.51

USD Billions

Note: "Other/unidentified" indicates a vendor for which USAID does not provide geographical information. USAID has not released complete transactional data for FY 2012.

Source: USAID Obligations Data, FY 2007–2011, shared in USAID meeting.

- Total U.S. budget support
- Budget support as percent of total U.S. flows

Source: Organisation for Economic Co-operation and Development, "Statistics," available at http://www.oecd.org/statistics/ (last accessed October 2013).
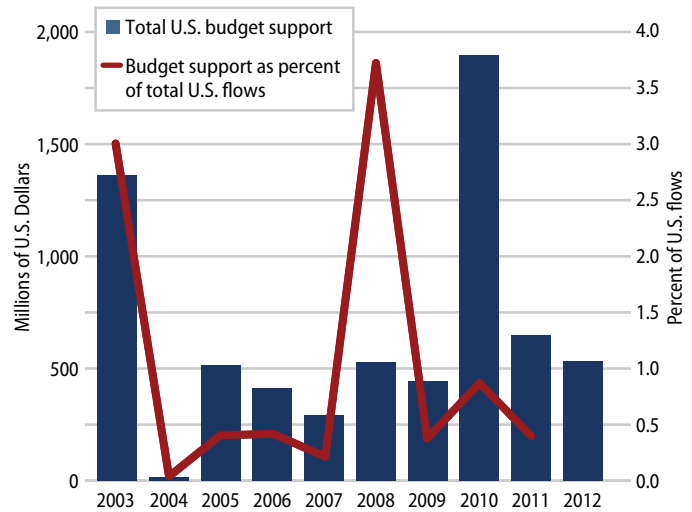
Before USAID's push to increase local procurement to governments and organizations, government-to-government funding comprised the bulk of local procurement. USAID devoted large resources to a limited number of countries, often of strategic security interest. In FY 2011, USAID devoted 87 percent of government-to-government allocations to just five strategic

governments: Afghanistan, Pakistan, Jordan, Georgia, and the West Bank and Gaza.[23] While these government allocations often received significant scrutiny, funding to international implementers dwarfed direct government assistance.

As part of its local procurement push, USAID is seeking to diversify the countries and ministries with which it works. In FY 2012, USAID Missions offered 69 awards to 30 different countries. The bulk of these awards—65 percent—went to specific ministries or sectors within these partner countries.[24]

Far and away, Afghanistan and Pakistan remain the countries with the largest direct government-to-government financing mechanisms. In FY 2012, a combined 21.1 percent of these Missions' funding went to local government procurement. In absolute terms, this amounted to roughly $560 million in direct obligations to the governments of Afghanistan and Pakistan.[25]

Removing these two outliers, the Europe and Eurasia region represents the largest levels of government-to-government funding by percentage, with 8.8 percent of these Missions' funds allocated to partner governments.[26] This translates to $36 million in direct obligations to European and Eurasian governments.

Perhaps not surprisingly, the biggest increase in local procurement efforts was also in the Europe and Eurasia Missions. In FY 2010, only 1.6 percent of funding went to local institutions. Only two years later, that total jumped to almost 9 percent, likely reflecting the relative sophistication of governments and civil society in this region.[27]

In absolute terms, African governments received the most government-to-government funding in FY 2012—when Afghanistan and Pakistan are not considered. Direct government funding totaled $55 million in sub-Saharan Africa with Uganda, Zambia, and Ghana receiving the largest allocations.[28]

USAID's efforts to work with local organizations

The other key pillar of USAID's efforts in procurement reform is increasing engagement with local businesses, NGOs, and civil-society groups. These organizations can offer crucial country expertise, as well as a high level of flexibility to adapt to changing circumstances. Local organizations have local connections, the ability to operate in challenging environments, and skills in networking with other groups, including the government. By engaging directly with local organizations, USAID hopes to sustainably build the capacity and expertise of these groups so that they may hold their government to account and advocate for effective development.

USAID allocated $687.6 million to local organizations in 72 countries and regions in FY 2012. Almost 76 percent, or $520 million, of this funding went to local nonprofits. According to the "USAID Forward Progress Report," Missions in the Europe and Eurasia region have seen the largest increase in local organization funding, moving from 4.3 percent of Mission funding in FY 2010 to 15.4 percent in FY 2012.[29] This regional trend is similar for direct government funding.

While USAID's past local procurement efforts were largely centered on government-to-government financing, recent reforms have brought a greater number of local organizations and businesses to USAID as partners. In FY 2011, funding to local organizations first eclipsed that of funding to country governments by less than a tenth of a percent. This trend continued in FY 2012 with 1.6 percent more funding going to local organizations than directly to governments.[30]

Procurement reform in other development agencies

USAID is not alone in its efforts to strategically increase its local procurement efforts. Aid agencies across the globe invest considerable resources in partner governments and local organizations.

After an independent review of AusAID—Australia's aid program—in late 2010, AusAID prioritized allocating aid through recipient governments. According to the 2011 Quality of Australian Aid report prepared by AusAID's Office of Development Effectiveness, the agency is already channeling 23 percent of its assistance through country systems.[31]

As a part of the Paris Declaration on Aid Effectiveness, EuropeAid, the aid agency of the European Commission, pledged to channel 50 percent of government-to-government assistance through country systems.[32] Aid funding from the European Union has moved to focus on initiatives that are in line with recipient country priorities, and there have been strategic efforts to decentralize management, build local capacity, and discourage parallel structures.

Indeed, some national development agencies see the use of local systems as the standard, not the exception. Canada's International Development Research Centre has cultivated such strong ties with local researchers and developing organizations that it has had to devise a reverse target of sorts, instituting a target of 20 percent of funds for Canadian researchers and organizations.[33]

But it is the United Kingdom's Department for International Development, or DFID, that offers the best comparator, as the United Kingdom has recently made efforts to re-evaluate its procurement practices to better focus on capacity building. From 2008 to 2010, DFID channeled about two-thirds of its money through country systems. Since then, DFID's administrative outlays have been cut by 33 percent as the department continues to pursue procurement reform predicated on de-centralization, direct budget support, and partner country systems.[34]

One of DFID's biggest challenges in increasing local procurement despite budgetary cuts has been improving in-country procurement expertise. DFID has recorded some difficulty in finding employees equipped with the knowledge necessary to procure at the local level but also able to look at procurement as part of an overall development strategy.[35]

At a broad level, this is the same sort of in-country capacity-building challenge facing USAID as the agency seeks to expand its engagement with in-country partners and rebuild its own technical capacity. Thus, aid agencies focused on increased local procurement must not only seek greater capacity in local institutions but also worry about having the capacity in-house to manage new partners and new procurements.

USAID could also draw lessons from the political ramifications of DFID's procurement-reform efforts. U.K. Prime Minister David Cameron's Conservative Party made the United Kingdom's budgetary concerns part of its platform, and the DFID reforms—geared toward market competition and improving efficiency—have dovetailed nicely with this agenda. Under the coalition government, the new development direction will be tailored to "results, delivery, and value for money."[36] Future funding is slated to involve increased competition—including active encouragement of non-U.K. bidders—and closer monitoring of results.[37]

DFID's repeated use of catchphrases such as "value for money" and "leverage greater impact" have seemingly helped it garner political support for the reforms, even though DFID, like USAID's procurement reform, plans to increase competition by encouraging non-U.K. bidders and diversifying its partner base.

Mitigating risk and ensuring accountability

As USAID has ramped up efforts to work with local partners, it has attempted to build in multiple mechanisms to identify and manage possible risks in local procurement. Risk management and accountability measures are present from the identification and planning phase of a project through to implementation and evaluation.

As noted, critics of procurement reform claim that working through local partners will invariably lead to greater waste and corruption. Recent studies have debunked this assumption, however, demonstrating that the use of local systems carries a level of risk similar to that of working with traditional international partners.[38]

USAID has sought to cover its investments with the high levels of fiduciary assessment and accountability, stressing that, as with all of its development programs, the goal is to identify potential risks and strive to counter them. Development as an enterprise always carries a certain amount of risk, and it would be impossible to fund risk-free development projects.

To identify and assess potential new partners—and ensure that current partners are held to the same high standards—USAID has adopted two different strategies and approaches for its country partners and local organizations.

Assessing risk in partner governments

For the past three years, in seeking to expand this mode of direct development financing, USAID has applied a Public Financial Management Risk Assessment Framework, or PFMRAF, to current and new countries poised to receive direct USAID funding. Out of the 101 countries in which USAID works, 33 countries have undergone at least one stage of the four-stage PFMRAF process.

Each PFMRAF stage is designed to build upon the next and pinpoint if, where, and how USAID might use its development dollars within a national government, ministry, or subnational government. The PFMRAF is built to not only assess a country's financial systems but to also develop a broader understanding of a country's governance landscape. In this way, USAID hopes to gather a complete picture of a country's fiduciary and management systems and the external risks that might make them vulnerable. As such, PFMRAF is not only a useful accounting tool but also a powerful gauge of a country's overall prospects for development.

The PFMRAF process is usually initiated at the behest of the USAID Mission director and staff. As such, USAID in-country personnel are the key drivers behind the identification and assessment of risk in a given country. It is their relationships with partner country officials and knowledge of country systems that are critical in moving the PFMRAF process forward and ultimately determining if a project should be pursued and what type of mechanism might best be utilized.

Stage 1 of the PFMRAF is an initial Rapid Appraisal. USAID, in conjunction with partner country governments, undertakes a national assessment of a country's financial, governance, and public-sector health. The Rapid Appraisal is not meant to dive into project or funding specifics, but rather to offer an indication of whether a country environment is broadly amenable to direct USAID funding.

The Rapid Appraisal stage is also where USAID ensures that potential investments will not support a government that does not support its people. Risk comes in many forms, and fiduciary risk is not USAID's sole concern. The risk of undermining civil society through support of an unaccountable government is just as problematic as a leakage of funds, and the Rapid Appraisal is designed to determine this.

USAID offers strict guidance on governance assessment as a part of its financial management assessment to guarantee that any direct government funding would not undermine civil society. Some countries have not moved beyond Stage 1 assessments due to governance concerns, despite having strong financial management systems.

In Stage 2, partner governments undergo a deeper dive into the specific sector or ministry of government with which USAID intends to partner. This Risk Assessment stage is meant to thoroughly test and vet financial management systems and the civil service members who work within them.

For instance, if USAID identifies country X as a good potential partner for a project on strengthening its rural health clinics, the Stage 2 Risk Assessment would focus solely on the Ministries of Health and Finance, as those would be the two bureaucracies handling USAID funds for this particular project. This approach would seem to acknowledge that the quality of different ministries and their leaderships are often highly variable in the developing world.

A country can undergo multiple Stage 2 Risk Assessments depending upon where a potential project might be—perhaps in multiple districts across a country—or what sector it might involve—different Risk Assessments would be necessary for a vaccination program as opposed to a teacher-training program.

The final two stages of the PFMRAF—Project Design and Project Agreement—are designed to build upon the results of the Rapid Appraisal and Risk Assessment to design and move forward with a program that, to the furthest extent possible, mitigates against identified risks and achieves maximum development outcomes.

While USAID Mission directors and staff often begin the PFMRAF process with a specific project and implementing mechanism in mind, the assessment offers a chance to refine and adopt the project scope and implementing mechanism that will best serve both the partner country and USAID.

As noted, USAID has already utilized this assessment tool in a number of countries. Thirty-five countries have completed a Stage 1 Rapid Appraisal, and 23 countries are currently conducting or have concluded Stage 2 Risk Assessments. Twelve countries did not proceed beyond Stage 1. Complete information about the progress of countries in the Stage 3 and Stage 4 processes is not readily available; USAID should make this information more transparent.

TABLE 3

Countries undergoing USAID's public financial management risk-assessment frameworks

Stage 1: Rapid Appraisal	Stage 2: Risk Assessment	Stage 3: Project Design	Stage 4: Project Agreement
Armenia			
Bangladesh	Bangladesh		
Barbados	Barbados		
Benin			
Colombia	Colombia		
Dominican Republic			
East Timor			
El Salvador	El Salvador		
Ethiopia			
Georgia			
Ghana	Ghana	Ghana	Ghana
Haiti			
Honduras	Honduras		
Indonesia			
Jamaica	Jamaica		
Jordan	Jordan		
Kenya	Kenya		
Kosovo	Kosovo		
Liberia	Liberia	Liberia	Liberia
Malawi	Malawi		
Mali			
Moldova	Moldova		
Morocco			
Mozambique	Mozambique		
Nepal	Nepal		
Paraguay			
Peru	Peru		
Philippines			
Rwanda	Rwanda	Rwanda	Rwanda
Senegal	Senegal		
Serbia	Serbia		
South Africa	South Africa		
Tanzania	Tanzania		
Trinidad and Tobago	Trinidad and Tobago		
Zambia	Zambia		

Note: Stage 3 and Stage 4 data are incomplete and only represent information that is publicly available.

Sources: PFMRAF table shared at USAID meeting; U.S. Agency for International Development, "Review of USAID's Partner-Country and Local Organization Assessments Under Implementation and Procurement Reform" (2013), available at http://oig.usaid.gov/sites/default/files/audit-reports/9-000-13-003-s_0.pdf; and U.S. Agency for International Development, "Implementation & Procurement Reform: Achievements," USAID Forward 4 (2012).

USAID has not outlined what happens to a country's programs if it fails the Stage 1 assessment, but it should. There are three basic alternatives if a country does not pass Stage 1:

1. USAID and the partner country put in place a plan to address the mutually identified problems until a country can complete Stage 1.

2. USAID determines that assistance should be directed through local and international partners rather than the government.

3. USAID discontinues assistance because the country in question does not appear to be a good partner.

Negative results from a Stage 1 Rapid Appraisal would seem to be a good reason for USAID to scale back its development efforts in certain countries if the questions raised by the appraisal cannot be resolved expeditiously. USAID programs continue to be spread over a very wide variety of countries, and a more focused approach to assistance would likely increase the effectiveness of programs in general.

Another cause for concern is the fact that PFMRAFs have not been undertaken in some of USAID's largest and most important partner governments—Afghanistan, Egypt, Pakistan, Uganda, and West Bank and Gaza. This has created the unfortunate impression that the PFMRAF is an exam only given to countries that will be able to pass it. USAID should include the aforementioned countries in the PFMRAF process and make clear the cases where assistance is being continued for geostrategic purposes despite PFMRAF results.[39]

USAID has noted that it plans to retroactively undertake PFMRAFs in these countries that would apply to new grants and contracts.[40] As it stands, however, Afghanistan and Pakistan comprise significant levels of USAID's total government-to-government calculus. If these countries are to be used as a part of USAID's procurement-reform efforts, then they should be subject to the same risk assessments as other local governments.

Despite congressional criticism that USAID will give money to "unaccountable and often corrupt foreign governments," the agency has by and large picked the right countries to undertake the PFMRAF process.[41] Out of the 101 countries in which USAID operates, only 23 have made it to the Stage 2 process of the
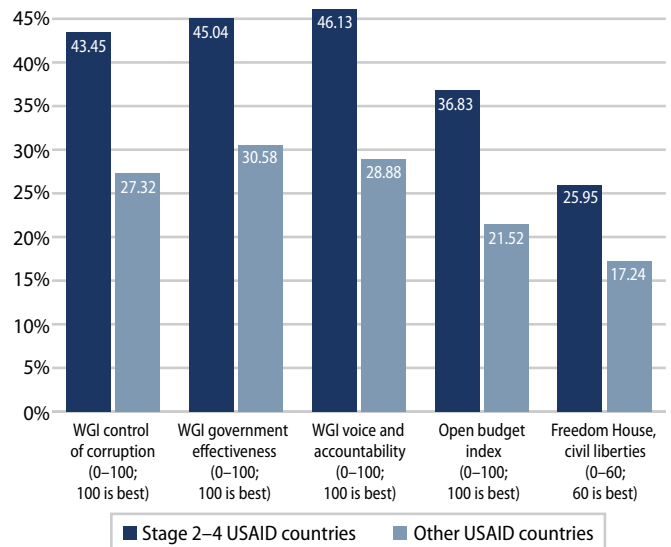
PFMRAF. As Figure 3 shows, when compared to other USAID countries, these countries are advanced along multiple indicators of governance, capacity, and civil-society openness. USAID is not simply passing out direct government grants to any and all of the partner countries with which it works.

Once potential risks have been identified and mitigated against, the benefits of these government-to-government transactions by USAID cannot be overstated. Each partner government has unparalleled knowledge of its country's need and context and can bring this expertise to bear in the implementation of sustainable development efforts. Moreover, the use of country systems helps build technical and financial capacity and apply these same systems of responsible procurement and accountability to the country's own local businesses and NGOs, domestic resources, extractive industries, and investment loans from nontraditional donors.

FIGURE 3
Governance comparison of USAID countries

Note: WGI stands for the World Bank's Worldwide Governance Indicators.

Source: Author's calculations based on World Bank, "Worldwide Governance Indicators," available at http://info.worldbank.org/governance/wgi/index.aspx#home (last accessed October 2013); International Budget Partnership, "The Open Budget Index: Timeline," available at http://survey.internationalbudget.org/#timeline (last accessed October 2013); and Freedom House, "Freedom in the World 2013" (2013), available at http://www.freedomhouse.org/sites/default/files/FIW%202013%20Booklet.pdf.

A partnership between USAID and the government of Ghana illustrates this point. USAID has provided $22 million to the Ghanaian government for the construction of schools, municipal education offices, and sanitation facilities. The partnership has brought in the expertise of Ghana's Ministry of Education, Metropolitan Works Department, and Ministry of Finance to survey, prioritize, and map out the intended schools and offices. USAID has provided technical expertise in environmental, financial, and procurement management and promoted public-private partnerships with 69 construction firms selected through Ghana's procurement systems.[42]

To ensure sustainability, the government of Ghana organized local community forums that emphasized participation throughout the entire process of school construction. USAID gave these community stakeholders information that will allow them to hold their government accountable in ensuring that the schools continue to provide quality education. As part of the partnership between USAID and Ghana, the Ghanaian government also provided 25 percent of the total funds.[43]

Should Stage 2 Risk Assessments indicate that a country is not yet ready for direct initial funding, USAID has a multitude of implementing tools at its disposal to support country systems while maintaining high levels of accountability. The fixed-amount reimbursement agreement, or FARA, is one such tool that maximizes the efficacy of direct government financing with much less risk for USAID.

FARAs are designed to focus on a specific set of outcomes to which USAID attaches a predetermined cost. Once the government completes the agreed-upon objectives, USAID reimburses the cost contingent upon final approval by the agency that the completed work is done in accordance with international standards and requirements. USAID is utilizing FARAs to enable governments to design, implement, and monitor development programs in a number of sectors, from the construction of schools and roads to government-run social safety nets for the poorest of the poor.

USAID, for example, has negotiated a FARA with El Salvador to support its Temporary Income Support Program for Salvadorans affected by devastating floods. FARAs can also be used to enact programs and build capacity at the subregional government level. In Rwanda, USAID has undertaken a five-year, $40 million FARA with eight district governments to rehabilitate approximately 800 kilometers of rural feeder roads. The program is strengthening the technical capacity of these local governments while reducing risk, lowering costs, and ensuring accountability for USAID.[44]

Assessing risk in local organizations

Because of the wide array of potential local organizations in a given country, the process by which USAID identifies and partners with local entities is less straightforward, though rigorous.

The first step is identifying potential civil-society organizations and businesses that might achieve better development outcomes with direct assistance from USAID. Many of these organizations have some track record of already working with USAID's U.S.-based NGO and contractor partners as subgrantees.

Some U.S.-based NGOs and contractors have readily made their subgrantee information available and encouraged these organizations to apply for direct funding. Save the Children, for example, has offered multiple case studies of how, after building capacity in a local organization, it switched from being the prime grantee to becoming a subgrantee under the local organization.[45]

From 2007 to 2012, Save the Children was the prime recipient of a major USAID food-security project in Guatemala.[46] It worked with local export consortium AGEXPORT to run small-scale projects that opened up markets for poor rural farmers. AGEXPORT's success in running these projects combined with USAID's push to partner locally allowed AGEXPORT to become the prime recipient in 2012, with Save the Children acting as a subgrantee to provide technical support and institutional capacity. Save the Children expects that in the next grant cycle, AGEXPORT will not need any international NGO support, allowing AGEXPORT to continue its efforts in Guatemalan food security and Save the Children to prioritize its resources elsewhere.

This is a powerful example of the potential of local procurement reform. USAID does not currently have the capability to track subgrantee awards, however, which is a huge missed opportunity to identify potential local partners and a logical next step if the agency hopes to become less reliant on large umbrella contracts over time. Should USAID hope to identify these local organizations, the onus is on the prime grantee, often large international implementers, to proffer this information.

USAID is also pursuing internal strategies to identify and work with local organizations. Many USAID Missions have undertaken extensive mapping exercises to better assess the civil-society and private-sector landscape and pinpoint potential organizations.

USAID's mapping guidelines function in much the same way as the PFMRAF does. The agency's mapping consists of four phases:[47]

1. Country and sector context

2. Inventory of civil-society and private-sector organizations

3. Capacity development market analysis

4. Drawing conclusions

The full spectrum of this mapping is designed to cover political and economic systems, cultural and community context, legal and regulatory environment, civil-society landscape, and private-sector landscape. The country mapping allows USAID Mission staff to focus limited personnel and resources on the organizations and sectors that have the most potential to ably carry out USAID programming.

In at least 15 country and regional Missions—including Egypt, Ghana, Kenya, Peru, the Philippines, Senegal, East Africa, and southern Africa—USAID has also deployed Local Capacity Development Teams to work within Missions to build the fiduciary and management capabilities of targeted local organizations. These teams conduct extensive workshops and briefings to familiarize local entities with USAID financial and reporting requirements.

While the reach of these teams has reportedly been uneven, the local organizations that have worked with USAID Local Capacity Development Teams have gone on to successfully compete for USAID grants despite very daunting application procedures.[48]

If USAID thinks a local entity has the potential to implement a direct grant from USAID, the agency administers the Non-U.S. Organization Pre-Award Survey. The survey is a tool that allows USAID to make a responsibility determination about the organization under consideration. The survey has three objectives:

1. Determine whether the organization has sufficient financial and managerial capacity to manage USAID funds in accordance with USAID requirements.

2. Determine the most appropriate method of financing to use under the potential USAID award.

3. Determine the degree of support and oversight necessary to ensure proper accountability of funds provided to the organization.[49]

USAID has yet to release any details around the administration of this survey, including where it has been administered and how many local organizations it has identified. This information would offer a critical metric of success in USAID's local procurement-reform efforts and could be shared in an aggregate way that would not impinge upon the proprietary information of local businesses or organizations.

Much like with government-to-government financing, USAID has multiple potential implementing mechanisms to use in its work with local organizations. One of the key mechanisms that USAID has used to cultivate new local partners is the fixed obligation grant, or FOG. Much like the FARA, this flexible grant model focuses on implementation and outcomes rather than inputs.

The FOG mechanism provides payments based on outputs, such as milestones achieved, rather than inputs, such as materials used, as is the case with USAID's traditional grant funding. USAID revised its FOG policy in August to allow for a focus on capable partners with limited experience in directly receiving and implementing USAID grants.

This procurement strategy is especially useful in countries with weak or poor governance structures and a strong and active civil society. In Kazakhstan, for example, USAID entered into a partnership with the local NGO Echo to engage in rapid voter education after the Kazakh government called an early election. USAID and Echo agreed upon a $105,000 FOG to undertake a nationwide voter-education campaign with media coverage in all 16 provinces. USAID technical staff closely monitored the program and offered assistance to NGO staff in managing and implementing the program.[50]

USAID was able to mitigate risk through the FOG mechanism while also ensuring accountability for results. Because USAID undertook this activity with a local NGO, it cost less than half of what it would have cost through an international implementer. There were no direct costs associated with a U.S.-based headquarters, which led to considerable labor and transportation savings. What's more, USAID did not have to account for mobilization and close-out costs since Echo existed long before the agency tapped it for this activity and continues to exist after its conclusion. Equally important, it helped build the capacity of an important civil-society organization in the process. Strong local organizations will ultimately help make Kazakhstan more democratic than USAID alone can.

This arrangement proved successful for USAID as it allowed them to tap a new local partner while mitigating risk to the agency and the American taxpayer. The FOG mechanism was an effective means of focusing Echo on concrete results tied to payment milestones.

The potential in USAID partnering with new and varied local organizations is great, but it will be incumbent upon the agency to provide the same level of transparency around these grants and contracts as with government-to-government financing.

Ensuring adequate levels of trained personnel

Not surprisingly, a significant shift in how the agency awards grants and contracts requires a commensurate shift in staffing patterns and skills. One critical element to risk mitigation and accountability is ensuring that USAID staff, especially Mission staff, have the appropriate level of technical expertise. When USAID launched plans to expand its local procurement efforts, it explicitly included a call to recruit and retain procurement officers. Rebuilding the agency's internal technical capacity and rebalancing the workforce to provide full oversight of local contracts and grants is a necessary cornerstone for the successful implementation of procurement reform and successful programmatic results.

As described above, USAID Mission staff are at the frontlines of determining the fiduciary health and capacity of both government systems and local organizations. For the past three years, USAID has sought to overcome a dearth of personnel and competence in procurement and implementation after this expertise atrophied with staffing declines in the 1990s. As the HELP Commission noted, USAID shrunk its staff levels from 3,163 in 1992 to 2,040 in 2006, while increasing its program funding from $7.68 billion in 1996 to $10.66 billion in 2006.[51] Fewer and fewer people at USAID had the responsibility to oversee more and more money.

To reestablish its expertise in identifying viable local partners, USAID has set the goal of hiring and training the technical and contracting staff identified under its implementation and procurement plan by FY 2013.[52] By FY 2015, the agency hopes to have "in-sourced" a range of key technical positions.

While the rhetoric of USAID's commitment to build up its technical staff has been on point, declines in USAID's operational budget mean that the agency must do more with less to successfully scale up local procurement. As discussed, USAID has deployed multiple Local Capacity Development Teams to assist local NGOs and private-sector businesses in becoming competitive for USAID grants. These teams are a welcome staffing addition and will create critical local capacity, but they are only available in a limited subset of countries.

Some available budget information does shed light on the current levels of USAID's contracting resources. In USAID's FY 2013 Congressional Budget Justification, the agency added a new line item to its operating expense request: the Implementation and Procurement Reform Initiative.[53] In FY 2012, USAID received $12.6 million for new hires and capacity building in support of its efforts. In FY 2013, the agency received an estimated $5.1 million for additional procurement-reform hires.

Less information is available on technical and contracting staff levels at the USAID headquarters in Washington, D.C., and in USAID Missions around the world. USAID has noted that it is drawing procurement expertise from its Development Leadership Initiative, which has been steadily staffing up since FY 2011. Only 16 direct hires, however, were requested for the Implementation and Procurement Reform Initiative in FY 2013.

To provide effective oversight and risk management, USAID must have appropriate levels of trained technical and contract experts. USAID should endeavor to recruit seasoned professionals in this space with the ability to provide the necessary oversight to USAID, Congress, and American taxpayers. It is not only about hiring more people but also ensuring that current personnel are effectively trained. This will not only allow appropriate risk management but will also help create a new generation of local businesses and NGOs that have the capacity and expertise to compete for grants on the international stage in support of development efforts in their countries.

Tracking the results of USAID's local procurement reform

Full-throated debates about the metrics behind procurement reform, whether it can adequately manage risk and keep institutions accountable, and when USAID will offer greater transparency on its efforts have served to overshadow the main goal behind increased local procurement: better development results.

The rationale and impetus behind local procurement reform is predicated on the fact that partner governments and local organizations will be able to achieve more—and more sustainable—development outcomes per development dollar than traditional practices.

As with institutionalizing any major business-model overhaul, however, a long-term perspective is necessary. At present, USAID and the development community have yet to conclude programs with funding explicitly directed to local institutions under these reforms. Once a body of evidence is available, these development results must be compared to similar programs undertaken by traditional partners both in terms of cost and effectiveness.

This comparison will help shape a discussion around real program results, and should be part of a broader effort to focus on outputs rather than inputs in our aid programs. By strategically sourcing more resources to local organizations and partner governments, USAID is taking a long-term view to development, signaling that it values strong and capable local organizations and governments as a development outcome. Thus, USAID should center metrics for success of local procurement efforts around impact achieved, cost of outcomes, sustainability of outcomes, and capacity built.

USAID notes that it has built metrics for its local procurement-reform efforts into new programming, but has yet to make these metrics publicly available. An indication of how USAID is planning to measure the success of these reform efforts would help to focus the results frame around aid effectiveness and development best practices rather than simply resource inputs.

While it still may be some time before the development community is able to access and compare results data across program implementers, capacity-building metrics for both partner governments and local organizations should be available. Because a certain level of capacity and fiduciary competence must be present before USAID moves forward with a grant or contract, it would be beneficial to USAID to make this information available. More countries moving into Stage 3 assessments and more local organizations passing the Non-U.S. Organization Pre-Award Survey are positive, tangible signs that local procurement efforts are building capacity.

Another important metric for the success of local procurement efforts would be the number of subgrantees that become prime grantees in a given country. Institutions that move from sub- to prime- status will presumably have undergone effective capacity-building measures to achieve this status. International implementers who are able to effectively build capacity and shepherd local organizations should be encouraged and further utilized in a given country. This approach builds in a direct exit strategy by ensuring local ownership and capacity building in a given project—something that fiscal hawks and development practitioners should both support.

Indeed, some USAID Missions are wisely building this relationship into their program design and solicitation. USAID Malawi, for example, included a component to address the challenge of identifying local organizations in their new agreements. Each primary implementing partner will pair with a local group as a subpartner with the intent to build their capacity to manage their own grants and contracts. After three years, the relationship will switch, with the subgrantee local organization becoming the prime recipient and the international organization becoming the subgrantee.[54]

USAID should encourage other Missions to adopt this policy more broadly and create baseline data on which local entities are currently subgrantees with the potential of becoming direct awardees.

In addition to an emphasis on outcome measures, shifting to locally procured development activities can also offer significant cost reduction. This benefit of local procurement has been lost in many discussions around USAID's local procurement efforts despite shrinking development assistance worldwide and a reduced national budget in the United States.

In this time of budget austerity, the cost savings available from local procurement provide significant incentives for USAID to pursue procurement reform. Savings are derived from areas such as reduced administrative and overhead costs and locally sourced goods and materials. In turn, more funds can flow directly to the institutions that USAID is seeking to assist while providing better results and impact for less money.

USAID has already noted many examples of success on this front with projects implemented to full outcome at a fraction of the cost. The agency, for example, reduced its cost to build schools in Senegal by 50 percent as a result of shifting the same contract to a fixed-price reimbursement model with the local government rather than procuring from a traditional international implementer.[55]

In USAID's income support program in El Salvador, the agency invested $10.3 million as of April 2012—a relatively nominal sum. Because the Salvadoran government administered the program rather than an international contractor, however, USAID saved $1.8 million in administrative costs. This means program beneficiaries realized 18 percent more of USAID's investment as a result of this mode of procurement.

Local governments have long recognized that international implementers often carry an outsized price tag. In Afghanistan, a former Central Bank official explained how the bank turned down a USAID offer to build regional branches due to exorbitant cost estimates. The USAID contractor quoted a cost of $130,000 per branch that then increased to $170,000 and then $630,000 per branch. This final estimate included $250,000 for subcontracting costs alone. The Central Bank opted not to use USAID for construction of these branches and instead used its own funds, at a cost of $85,000 per branch.[56]

These cases no doubt represent maximalist examples of how local procurement can increase cost-effectiveness and are a rarity in the sums saved. But they do offer concrete examples of the multiple benefits to local partners and the American taxpayer when development activities are locally procured.

Results from USAID's local procurement efforts will—and should—be measured by far more than the attainment of 30 percent of direct local funding by FY 2015. Clear metrics for success should be built around capacity building, program results, and cost-effectiveness. While these metrics will certainly take longer to accrue as programs are implemented, USAID should signal its intent and make public the indicators by which it will measure local procurement-reform success.

Recommendations to cement local procurement reform at USAID

Since the launch of its procurement-reform efforts, USAID has diligently sought to expand and institutionalize an ethos of local capacity building and partnership. The agency has underpinned this with ambitious input metrics and has sought to diversify its partner base both within and across countries.

With two years until its first official benchmark of FY 2015, USAID must double down on its efforts to expand local procurement, while ensuring that risk is appropriately managed, institutions are held accountable, and funds are disbursed transparently. The recommendations below offer ideas to help USAID build upon its early success with local procurement worldwide, while continuing to build support for this reform in the U.S. development community.

Clearly define the goals of local procurement reform

Although it is an important interim target, directing 30 percent of program funding to local institutions will not, in and of itself, constitute success for local procurement reform.

USAID must take a long view and look beyond FY 2015 to identify what the success of local procurement reform will look like. It must then define the metrics of success by which it and the development community can hold reform efforts accountable.

Beyond transitioning at least 30 percent of funding to local governments and organizations, USAID could define the success of local procurement reform in a number of dimensions, including:

- **Capacity building:** How many new ministries, organizations, and businesses are now able to effectively implement USAID awards? What are the most important elements of capacity to USAID, and how is the agency measuring them within local institutions?

- **Cost-effectiveness:** How much program funding and operational resources has USAID been able to save by procuring locally? How is USAID using these savings? Has the agency been able to re-invest these savings into programming, achieving greater development results with less money?

- **Sustainability:** Are locally procured programs proving to be more sustainable in their implementations and results than those programs implemented by traditional partners?

- **Impact:** Is there a difference in the development impact of a program when it is managed and implemented by a local entity as opposed to an international partner?

- **Focus:** Are program funds being strategically directed to countries where our aid can be most effective?

Make the data and metrics around local procurement-reform efforts more transparent

At a time when USAID has trumpeted its relative transparency and put significant resources into a robust Foreign Assistance Dashboard, the agency has done an inadequate job transparently communicating the different elements of procurement reform to the wider development community. Information is often not published or out of date.

USAID must make a concerted effort to make more information available for public consumption as it seeks to increase local procurement. As a start, the following pieces of information should be made publicly available and regularly updated.

- **Government-to-government assessment and funding data:** USAID should publish the status of each country along the PFMRAF process, as well as when each stage was undertaken. It is understandable that the details of these assessments cannot be made public as they may contain sensitive information, but a top-level picture of how governments are progressing through the PFMRAF process would signal which countries are proving to have capable financial management systems.

As countries progress beyond Stage 2, USAID should also clarify on which ministries or subnational bodies the PFMRAF is focusing. This would offer a clearer picture of national capacities and USAID's work within a given country.

- **Local organization assessment and funding data:** USAID should track and publish the number of Non-U.S. Organization Pre-Award Surveys that it successfully administers in a given country. Over time, this information should provide a good picture of the capacity level of local organizations in a given country. Again, USAID does not need to make the contents of such surveys available as they might contain proprietary information.

- **Local Capacity Development Teams:** USAID should make the locations of these teams in a given fiscal year available. This information would prove helpful in both identifying where USAID sees the greatest potential for local partners and where other donors and implementers might focus efforts should USAID not be present.

- **Project subgrantees:** If USAID is not tracking the subgrantees of its awards in a given country, it is missing an important opportunity to identify and build up local organizations that already have experience in working with and executing USAID programs. Over time, this information will also prove incredibly useful for USAID to show how previous subgrantees have become prime grantees. If the internal capacity is not available to track this information, then USAID should include this disclosure as a part of project contracts.

- **Internal local procurement strategy:** USAID should update and make its procurement-reform plan public. USAID had its original five-year plan publicly available but then retracted it after the agency received intense criticism over its reform plan. USAID should update its plan based on community feedback, make it publicly available, and then commit to revisiting it annually as new data and feedback are received.

Build local procurement plans into contracts with traditional donors

The USAID Mission in Malawi's plan that requires international implementers partner with a local organization to build its capacity over three years is an excellent model that other Missions should implement. Building these partnerships into contracts allows USAID to achieve programmatic results while also expanding its partner base and grooming local organizations to eventually become prime awardees.

Ensure that staffing and training needs keep pace with reforms

USAID must match its strong rhetoric and strategy with the technical expertise necessary to implement such reforms at the Mission level. The agency will only continue to increase the number of awards that it offers, and this will require personnel with in-depth procurement and risk-assessment knowledge. This is a critical time to show the results of local procurement, and the reform should not get ahead of the ability to execute it.

Focus on the politics behind local procurement reform

The ultimate success of local procurement efforts will require the support of the U.S. development community, the administration, and Congress. USAID should clearly articulate the rationale behind these reforms—including greater results at a reduced cost—and convey the inherent value for money that local procurement efforts can achieve, both in the short and long term. If USAID is truly going to work itself out of business, local procurement reform is a required step.

Within the wider development community, USAID should also shift focus away from the 30 percent target to a larger focus on the effectiveness of 100 percent of its programming. Is USAID funding, including the 70 percent flowing to international implementers, achieving good development results? Are results transparent? Is risk being appropriately managed? The spotlight around these important issues should be on all implementers, not just local partners.

Use local procurement reform to be more selective

Efforts to focus on certain country systems and civil society offer an opportune time for USAID to exercise greater selectivity and focus in its development efforts. To a certain extent, the agency has done this by limiting the countries to which it sends Local Capacity Development Teams or in which it uses government systems for projects. USAID should explicitly orient its local procurement efforts through a selectivity frame, showing that it will not be doing everything everywhere and will also be selective in the partners with which it chooses to work.

Conclusion

Behind USAID's push for increased local procurement is an explicit recognition that development must be country-led and country-implemented in order to have sustainable impact. While the agency experienced significant growing pains in launching this reform, it has worked to institutionalize and expand local procurement practices so that local solutions becomes a way of doing business for USAID, not a fleeting development fad.

But there is still room to grow. USAID must make a concerted effort to bring congressional members and U.S. NGOs to the table as partners with a stake in the success of local procurement. Both members and NGOs bring unique perspectives and will be key allies in carrying forward this vision beyond a single USAID administrator or administration.

The strident pushback to local procurement reform is a sign of the change in business that it ultimately portends. USAID is matching the rhetoric of putting itself out of business with a funding and implementation model that does just that. Local procurement reform may not be the hot development topic du jour, but the long-term impact that it can deliver could very well outlast the agency itself.

About the author

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Previously, Casey worked on harmonizing gender and rule of law programs in Liberia with Emory University's Institute for Developing Nations. She has also worked at the Carter Center and the International Rescue Committee. Dunning graduated from Emory University with a specialization in international political economy and has also completed studies at Oxford University and Trinity College, Dublin.

Acknowledgements

Appendix: USAID country presence

Africa
Angola
Benin (Completed Stage 1; did not progress to Stage 2)
Botswana
Burkina Faso
Burundi
Cameroon
Central African Republic
Chad
Cote d'Ivoire
Democratic Republic of Congo
Djibouti
Ethiopia (Completed Stage 1; did not progress to Stage 2)
The Gambia
Ghana (Implementing programs under Stage 4)
Guinea
Kenya (Undertaking Stage 2 assessments)
Lesotho
Liberia (Implementing programs under Stage 4)
Madagascar
Malawi (Undertaking Stage 2 assessments)
Mali (Completed Stage 1; did not progress to Stage 2)
Mauritania
Mozambique (Undertaking Stage 2 assessments)
Namibia
Niger
Nigeria
Republic of the Congo
Rwanda (Implementing programs under Stage 4)
Senegal (Undertaking Stage 2 assessments)
Sierra Leone
Somalia
South Africa (Undertaking Stage 2 assessments)
South Sudan
Sudan
Swaziland
Tanzania (Undertaking Stage 2 assessments)
Uganda
Zambia (Undertaking Stage 2 assessments)
Zimbabwe

Asia
Bangladesh (Undertaking Stage 2 assessments)
Burma
Cambodia
China
India
Indonesia (Completed Stage 1; did not progress to Stage 2)
Kazakhstan
Kyrgyz Republic
Laos
Maldives
Mongolia
Nepal (Undertaking Stage 2 assessments)
Philippines (Completed Stage 1; did not progress to Stage 2)
Sri Lanka
Tajikistan
Thailand
Timor-Leste (Completed Stage 1; did not progress to Stage 2)
Turkmenistan
Uzbekistan
Vietnam

Europe and Eurasia
Albania
Armenia (Completed Stage 1; did not progress to Stage 2)
Azerbaijan
Belarus
Bosnia and Herzegovina
Cyprus
Georgia (Completed Stage 1; did not progress to Stage 2)
Kosovo (Undertaking Stage 2 assessments)
Macedonia
Moldova (Undertaking Stage 2 assessments)
Montenegro
Serbia (Undertaking Stage 2 assessments)
Ukraine

Latin America and the Caribbean
Barbados (Undertaking Stage 2 assessments)
Bolivia
Brazil
Colombia (Undertaking Stage 2 assessments)
Cuba
Dominican Republic (Completed Stage 1; did not progress to Stage 2)
Ecuador
El Salvador (Undertaking Stage 2 assessments)
Guatemala
Guyana
Haiti (Completed Stage 1; did not progress to Stage 2)
Honduras (Undertaking Stage 2 assessments)
Jamaica (Undertaking Stage 2 assessments)
Mexico
Nicaragua
Panama
Paraguay (Completed Stage 1; did not progress to Stage 2)
Peru (Undertaking Stage 2 assessments)
Trinidad and Tobago (Undertaking Stage 2 assessments)

Middle East
Egypt
Iraq
Jordan (Undertaking Stage 2 assessments)
Lebanon
Libya
Morocco (Completed Stage 1; did not progress to Stage 2)
Syria
Tunisia
West Bank and Gaza
Yemen

Afghanistan and Pakistan
Afghanistan
Pakistan

Endnotes

1   USAID originally broke down the 30 percent metric by recipient organization. By FY 2015, partner governments were to receive no less than 20 percent of program funds, local nonprofit organizations were to receive no less than 6 percent of program funds, and local private businesses were to receive no less than 4 percent of program funds. USAID has since dropped this breakdown and stood by its 30 percent target, divisible depending upon each country's context and need.

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5   David Bechmann,"MFAN Statement: USAID Administrator's Tough Speech Heralds New Development Business Model," ModernizeAid blog, January 19, 2010, available at http://www.modernizeaid.net/2011/01/19/mfan-statement-usaid-administrator%E2%80%99s-tough-speech-heralds-new-development-business-model/.

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8   Letter from Stan Soloway, Professional Services Council, to USAID Administrator Rajiv Shah, February 7, 2011.

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12 *Global Partnerships Act of 2013*, H.R. 1793, 113th Cong. 1 sess. (Government Printing Office, 2013).

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