

**Outsourcing Development**  
*An Assessment of the Role of Contractors in USAID*

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## **Abstract**

Many aid agencies have come to rely on third party contractors to carry out development projects. From a theoretical perspective, this move can make sense as it helps to mitigate the “Samaritan’s dilemma” by reducing information asymmetry: i.e. allowing the donor agency to better monitor the recipient agents (local partner organizations).

However, in the case of USAID, contracting has been corrupted by two tendencies: (1) a simplistic belief in the suitability of private industry and (2) economic nationalism. These two tendencies win political support essential to funding, but hinder the effectiveness of aid for various reasons. Taken together they are especially harmful because they contradict each other: the supposed efficiency of the private sector is undermined by the preference to US companies and/or US-oriented elite among recipient agents.

The end result is the monopolization of aid contracts by a select group of “insider” contractors that are able to exclude competitors through collusive practices. With its current shortage of contracting personnel and decentralized evaluation structure, USAID lacks the capacity to ensure accountability and is growing increasingly isolated from its projects. These problems are in turn reflected in the relations between contractors and their subcontractors/RAs during project implementation.

USAID needs to change in two main ways. First, the accountability capacity of USAID needs to be standardized- not streamlined. More contracting staff should be hired in Washington and more technical staff should work in field missions. This would allow the agency to conduct more thorough evaluations of both prospective contractors and completed projects. Second, the agency should become much more open to awarding bids to foreign contractors and hire more local staff. Such improvements would help restore accountability at all levels of the aid process, thereby creating an incentive structure that is more conducive to achieving lasting results.

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Over the past several decades, the United States Agency for International Development (USAID) has radically transformed the way it does development. Rather than sending USAID employees abroad to run development projects, the agency now primarily works by awarding large contracts to U.S.-based firms and non-profit organizations. In the development business, contracting work is often outsourced to a contractor that has particular expertise in a region, which cannot be matched by agency staff (Anderson & Auer 2005: p.170). In theory, this allows for greater versatility, allowing USAID to engage in many types of development projects specifically geared towards the unique conditions of various countries. Yet the significance of USAID's contracting work extends well beyond the agency itself. Bate & Schwab (2005: p.13) discuss how as the development arm of the world's most powerful nation, USAID plays a key role in designing and implementing many international initiatives.

In this paper, I will argue that the main problems with USAID are rooted in two misguided notions that took root in the nineties: an antiquated conviction that private firms are always more efficient than government, and economic nationalism embodied in the "Buy American" rules, which discourage employment and interaction with local groups operating on behalf of aid recipients. Each of these factors spawn a variety of deleterious effects within an agency, but they are a particular impediment to productivity when they occur simultaneously as in USAID. This is because the benefits that can be achieved through the free market are undermined by the economic nationalism which stifles competition.

After examining the history of contractors at USAID, I will provide an overview of the institutional culture of USAID and the way aid flows through the agency. I will

then explain the theoretical basis for relying upon aid contractors, and address how they relate to potential problems which emerge at the various phases of the contracting process: source selection, project implementation, and subcontracting to recipient agents (RAs). I will conclude with some policy recommendations designed at reforming the incentive structure to yield aid projects that are a more efficient use of tax dollars and lead to greater sustainability.

## **I. Background**

Ever since its founding in 1961, USAID has hired contractors. Initially, contracting was primarily restricted to research grants awarded to American universities, as the agency lacked the internal capacity to conduct its own research (Lee 1969). At that time, the United States allocated the largest share of its budget to foreign aid compared with other industrial nations that were still recovering from the Second World War, and USAID justified its existence by appealing to the charitable instincts of the American people (Hoy 1998:p.31). This altruism was soon tempered by political pragmatism with the onset of the Cold War, when the agency was seen a conduit to advance pro-American interests in the developing world. While the association of foreign aid with realpolitik power politics is less explicit today, the fact that development assistance is deeply intertwined with foreign policy remains a reality.

The character of the agency was significantly altered in the 1980's, in line with the Reagan administration's push to shrink government in order to grow the private sector. This was manifested in two key ways: outsourcing many development projects to

for-profit contractors, and shifting the goals of the agency from basic needs like “poverty alleviation” to “opening markets” and “expansion of private enterprise development” (Berrios 1998:p.12)

Though Clinton initially promised to expand the mandate of USAID (Hoy 1998:p.37), the push to privatize was continued when Republicans took control of Congress in the 1980s. The Chairman of the Senate Foreign Relations Committee, Jesse Helms, famously complained that “\$2 trillion<sup>1</sup> of the American taxpayers’ money is going down foreign rat holes to countries that constantly oppose us” (Duffy 1994), and many legislators pressed to cut the budget of the agency or even shut it down entirely. These measures occurred as the foreign aid business was besieged by bad press. Several famous exposés on the wasteful practices of charitable organizations working in famine relief and child sponsorship made many private donors question the purpose of foreign aid altogether. Books like Michael Maren’s 1997 bestseller The Road to Hell took particular aim at USAID, depicting an organization rife with mismanagement and even corruption at all levels of the supply chain. After a period where the future of the agency seemed in doubt, USAID was allowed to continue its existence as long as it fulfilled three key conditions: a “reduction in force” that resulted in massive staffing cuts and mission closures, a solid commitment to outsourcing projects to U.S. contractors, and increased political alignment of development goals with foreign policy objectives (Bate 2005).

The first condition dramatically shrunk the agency, shutting down 24 field missions, eliminating over 1,750 staffers including several high-profile positions, and cutting down on the capacity of the agency to design new projects (Hoy 1998: p.36-7). Today, there are 75 USAID field missions, each of which have no more than about 8

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<sup>1</sup> Hoy(1998:p.36) calls this figure “an outrageously inflated estimate by any standard”

career officers, most of whom are trained to work on management, legal, and budgetary issues. (Lancaster and Dusen 2005: 32-33) To make up for this lost capacity, USAID greatly increased the amount of contracts it awarded to American bidders. As a result, vast majority of USAID's experts working in the field are now contractors who are overseen by the few technical staff who work at the regional missions. Finally, the agency gradually lost its independence as its ability to set US development assistance priorities gradually fell under the purview of the State Department (Haugaard 1997).

In recent years, the agency has generally continued in the trajectory set in the nineties, as recent trends indicate downsizing of manpower, outsourcing to contractors, and a more general composition among agency workers (i.e. hiring fewer technical experts and more generalists) (CGAP 2004). In the past few years, contractors have come increasingly under fire, as stories of waste and abuse have resurfaced.

## **II. The Structure of USAID**

### **The Role of Contractors**

Contractors have assumed such a prominent role in USAID's work that they now define the nature of the agency. Lancaster and Dusen (2005:p.33) note that USAID has become a "wholesaler" rather than "retailer" of foreign aid, acting as an umbrella group that funds projects carried out by a diverse range of contractors and NGOs. A diagram laid out by Gibson et. Al. (see appendix: Figure 1) demonstrates how essential contractors are to the work of an aid agency. They basically act a hub, which interacts with a variety of parties on both the donor and recipient sides. Ensuring that contractors

operate honestly and efficiently is therefore crucial to the success of an aid project. However, if the work of contractors is distorted by waste and cronyism, the likelihood that the intended recipients of aid will substantially benefit is significantly diminished.

One caveat about these problems I shall discuss is in order. Will all of the negative press garnered by some notorious contractors like Halliburton and Bechtel, it may be easy to criticize individuals involved in aid contracts as being motivated by personal greed rather than the sense of compassion and duty that the aid industry demands. This is not my argument. In fact, one survey of aid contractors found that contractors are motivated not only by money but also by a sense of altruism, deriving personal satisfaction from helping the poor (Andersson and Auer:p.169). It is despite the personal integrity of many aid workers that foreign aid is not being put to effective use, since economic nationalism and a simplistic commitment to privatization have set up perverse incentive structures fundamentally unsuited to foreign aid.

### **The Flow of Foreign Aid**

Development assistance is passes through a Byzantine network of different channels before finally reaching its target. I shall offer an oversimplified diagram of the process (see appendix: Figure 2). The foreign aid budget is set by Congress, a significant portion of which is allocated to USAID. The agency then distributes funding from Washington to its field missions. The decentralized structure of USAID encourages the timely spending of allocated funds rather than the incentive to keep costs down (Berrios 2000: p.11). USAID in turn lobbies Congress for funds,. Aid projects are then awarded to prime contractors (hereafter referred to simply as “contractors”), which often

subcontract to the recipient agent (RA) – usually smaller NGOs or firms – which finally distributes the good or service to the final recipients (i.e. the proverbial starving refugees).

It is especially worth noting that in this diagram, the money flows in the opposite direction as the private sector. Take for instance a retail company: revenues are generated from sales to consumers which are passed from branches to corporate headquarters. Through foreign aid, money that is allocated from Washington is shifted “outwards” toward consumers. While this centrifugal flow of funding occurs with most government services, the distance the money travels from the coffers of Washington to needy populations in far-flung locales is unique, which makes the efficiency and accountability of each of the intermediaries all the more essential.

### **Pressure to “Move the Money”**

Throughout this process, each actor is motivated by the need to churn the money through the system as speedily as possible, in order to justify the need for more funds and give the appearance of efficiency. This raises cause for concern, as quality may be sacrificed for speed. Conservative elements of the U.S. Congress may inadvertently hasten this process along, for as Smillie (1999b: p.261) notes:

Embattled government agencies that are closely being watched by politicians...focus more on short-term results for which they will be held most accountable, at the expense of the longer-term results that so often characterize good development.

This phenomenon was also noted by a survey of USAID employees, who ranked the “political pressure to commit large amounts quickly” as a key impediment to success (CGAP 2003:p.6). Also, contracting officers are often more likely to approve projects

which occur over a shorter time frame, since longer term projects involve more uncertainties. (Berrios 2000: p.83) This leads to a trend of contractors operating for a relatively short time period in a particular region, with little in the way of long-term evaluation. Thus, a project may yield short term success stories that appease USAID, but once the serious problems with a project begin to emerge, the consultants have moved on (Andersson & Auer 2005: p.169).<sup>2</sup> In this way, the emphasis on “moving the money” can be detrimental, since it provides a disincentive for the type of evaluation and analysis that could lead to long term success.

### **III. Aid Contracting in Theory**

#### **Contracting and the Samaritan’s Dilemma**

In order to understand the dynamics at play within USAID, it is useful to examine the role of aid contractors from a theoretical perspective. One problem endemic to foreign aid projects is the “Samaritan’s Dilemma,” first postulated by Buchanan (1997). According to this theory, while foreign agencies would prefer to work with recipient agents who expend high amounts of effort, they would still be willing to work with RAs who expend minimal effort. From the RAs’ point of view, the difference between the end results if the RA expends high or low effort is not substantial enough to justify the expenditure of such effort. In other words, since the RA knows it will be receiving donor aid regardless of how hard it works, it is not likely to work hard. This trend can be charted using game theory analysis (see appendix: Figure 3). Real world examples

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<sup>2</sup> Also, Dichter (2003) provides many examples of this phenomenon. For instance, aid contractors would build infrastructure which becomes run down in a matter of months and unusable within several years because no one in the community has the skills required for adequate maintenance.

abound as well. A classic case involves famine relief, whereby the food aid provided by donors provides an incentive for RAs to become food distributors, rather than work with the poor to develop sustainable agricultural techniques.

In order to mitigate the effects of the dilemma, Schmidten (2002) suggests that “enlightened Samaritans” may wish to delegate some responsibility to an independent arbiter. In theory, this is where third-party contractors could help. By taking on some of the responsibility for the success or failure of an aid project, contractors allow donors the ability to take more risks. Unlike the RA, a contractor is likely (indeed contractually obligated) to expend large amounts of effort, as its own future is contingent upon success. This allows the donor to achieve its optimal scenario of giving to a party that is likely to work hard. On a more pragmatic level, contractors are usually more nimble than the aid agency itself. They are often better informed about the local regions and are presumably able to work with RAs in a more intimate way that ensures optimal cooperation.

Also, the increased ability of contractors to be selective may make them better equipped to achieve success. While the aid agency itself is charged with implementing decisions made by other parts of government (the State Department, in the case of USAID), contractors are only likely to bid for projects in which they believe a successful outcome can be achieved. As they craft their proposals, contractors are only likely to select RAs which they believe will be reliable partners. If a RA fails to live up to its promises, contractors can terminate the relationship and find another partner with relatively little bureaucratic delay or hand-wringing over the political implications of ending a program.

Indeed, contractors can help soften the Samaritan's dilemma by acting as an intermediary between the donor and the RA. However, a successful outcome is far from certain, for it assumes that contracts will be awarded to a bidder that is perfectly independent, with no ties to the donor agency save its contractual obligations. Moreover, each actor is motivated primarily by its own self interest. Adding an intermediary to the donor-recipient relationship threatens to complicate the process, adding another actor capable of rent-seeking which would undermine the eventual goal of aiding the recipients. Therefore, the success or failure of employing contractors hinges on a fundamental question: whether the increased productivity brought about by mitigating the Samaritan's dilemma outweighs the deleterious effects of compounding the principal-agent dilemma through adding another agent. A diagram provided by Murrell(1999) illustrates this process (see appendix: Figure 4).

### **Information Asymmetry**

Any outsourcing relationship is characterized by information asymmetry, whereby the agent has access to better information than the principal (Prager 1992:p.39). This provides a counterweight to the power of the principal, which ostensibly controls the project through its command over the purse strings. Let us first examine this phenomenon in a simple aid relationship, whereby the donor funds a recipient agent to distribute aid to recipients. In the absence of contractors, a great deal of power rests with the RA, since they are the actors on the ground that know exactly how money is spent and have direct knowledge of the obstacles encountered. Lacking the ability to monitor the situation directly, the aid agency relies on the RAs for information on how the project

is progressing. This information asymmetry is vastly skewed in the RA's favor, as the RA is allowed to exert control over the project through the feedback it provides.

However, in a classic illustration of the principal-agent dilemma, the RA has its own interests which may conflict with the interests of the aid agency. For instance, a RA is motivated to find justification for its existence after the project ends, as its staff depends on continued aid for their livelihoods. This may conflict with the donor aim of providing a sustainable solution that would eliminate the need for future charity.

From the donor's perspective, this problem can be remedied by adding a contractor who can act as a power broker. It would be in the donor's interest to hire a contractor familiar with a country that has a presence in the field, because they could negotiate on behalf of the donor in an atmosphere of less information asymmetry, thus distributing some of the power away from the RA (Murell 2002: p.95). Of course, the power is not immediately restored to the donor, as it rests with a third party. Yet for the donor, a split power relationship is more ideal than one skewed towards the RA.

Yet in reality, the problem of access to information is far from solved, as contractors have their own interest which complicates the power relationships. As the contractors have the ability, and indeed the duty, to monitor how the project is progressing in the recipient country, the bulk of information received by the aid agency is provided secondhand by the contractor. This allows contractors a great deal of influence not just on managing current projects but also in influencing future projects. Much of the information that the agency uses to design RFPs comes from contractors, often the very same firms or NGOs which contend for the bid. Some contractors have even been found

to seriously abuse this role, submitting knowingly false documents to USAID.<sup>3</sup> The large amount of influence exerted by contractors due to asymmetrical information has become a feature of contemporary foreign aid, as most development agencies simply lack the staff to conduct much of their own evaluations (Gibson et. Al. 2005, p.73). However, the staff shortages and disorganized bureaucracy endemic to USAID makes information asymmetry particularly problematic.

### **The Role of Accountability**

The main way of minimizing rent-seeking on the part of the contractor is through effective evaluation. By assessing the work of the contractor, a donor agency can change the incentive structure in its favor. The results of evaluations can effect the future funding prospects of a contractor, and under some contractual arrangements they determine the actual amount paid upon completion. Any development agency must strike a careful balance between accountability and bureaucracy, putting into place just enough accountability mechanisms to guard against rent seeking while avoiding an excessive paperwork burden which saps efficiency.

Due to their control over information, it is entirely possible for contractors to resist evaluation efforts by distorting data. However, Murell (2002: p. 96) points out that there are some natural tendencies against this. Firstly, providing deliberately inaccurate information takes time and effort, which acts as a deterrent for a firm trying to maximize profits. Moreover, a contractor would constantly have to worry about having their obfuscation efforts discovered by an intrepid evaluator at the donor agency. Such a

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<sup>3</sup> For instance, Abbott Associates Inc. was recently found guilty of over-billing the government by submitting over 110 false labor invoices (U.S. Attorney's Office 2006)

discovery would surely tarnish their prospects for receiving future funding and harm their reputation in the development community overall. Thus, effective evaluation can still change the incentive structure despite the contractor's ability to obfuscate.

However, the monitoring of international development is particularly labor-intensive endeavor, as the complexity of the aid allocation process makes blame for failure and credit for success is relatively hard to trace (Smillie 1999: p.30) In his study of various government contracting operations, Prager (1992: p.29-30) found that the costs of monitoring and evaluation varied wildly from 4.4% to 33% of program costs. He acknowledged that one of the main factors in accounting for evaluation costs is the relative simplicity of quantifying results. He provides the example that it is easy to see whether an electricity contractor delivered as promised simply by checking that there are working streetlights, while a builder who cuts corners by using cement of poor quality is much more difficult to determine. Using this rationale, it must be extremely difficult to monitor development projects, which often have such vague objectives as promoting economic growth through microenterprise or strengthening plural society by training journalists. One must thus acknowledge that monitoring costs in any development projects are bound to be substantial.

#### **IV. Recent Trends in USAID**

##### **Privatization of Development**

A main reason that contracting has been so aggressively pursued by USAID lies in a deep faith in the rightness of privatization. At the heart of this belief is the notion

that since private firms are driven by the desire for profits, they will operate as efficiently as possible in comparison to the government, which lacks any real market incentive to economize. This belief was exemplified by Ronald Reagan, who famously quipped that “the nine most terrifying words in the English language are: 'I'm from the government and I'm here to help.’” By this logic, staff cuts are often warranted as well, since any measure to replace incompetent bureaucrats with competent private sector workers is bound to increase efficiency.

In reality, the empirical case for contracting out government services is inconclusive at best. For instance, Starr (1987) analyzes a diverse sampling of governmental privatization experiments and finds an equally diverse range of results, leading him to conclude that “the illusory appeal of privatization is to provide a single solution for many complex problems.” Interestingly, he found that privatization was least effective in programs designed to help the poor, a conclusion which could have dangerous implications in promoting economic development.

Since firms are motivated by the desire to maximize profits, the only way they will be motivated to deliver the service most efficiently is if they are required to compete with other firms. Prager (1992) concludes that one of the necessary conditions for contracting to be effective is the presence of open competition. Indeed, some evidence suggests that the utility of contracting out often declines over the long run, because competition among contractors tends to decrease (Domberger and Rimmer 1994). Thus, while contracting out may sometimes lead to better results, the causal relationship is not automatic.

Moreover, the argument that privatization automatically results in higher efficiency relies on a false dichotomy between a government agency perpetually mired in wasteful bureaucracy and an inherently sleek, efficient private sector. It is indeed possible to reform government agencies which do not function properly, and the notion that privatization is the only alternative to the status quo appears rather myopic in light of the panoply of policy options. In some cases, the motion to privatize government functions may even serve as a rallying cry that deflects pressure that would otherwise lead to internal reforms, which would lead to greater efficiency than the private sector can provide in the long run. (Prager 2000, p.4)

### **“Buy American” Rules**

The economic nationalism that infuses many layers of the USAID procurement cycle is detrimental to efficiency, despite the professed aim of helping the American economy. While rooted in a weak legislative framework, the Buy American practices are essentially used as a policy tool to generate good publicity and shore up support in Congress.

The preference for U.S. contractors in government procurement far predates the agency. The Buy American Act of 1933 was originally implemented to require the government to give priority to American producers in its purchases, and the Foreign Assistance Act of 1961 extended many of these provisions to the USAID. However, according to the Code of Federal Regulations, it seems relatively easy to get an exemption from such requirements. For instance, foreign nationals can be hired due to “persuasive political considerations” or in the instance that: “procurement in the

cooperating country would best promote the foreign assistance objectives,” and even “such other circumstances deemed to be critical to the achievement of project objectives” (U.S. Government – 22 CFR 228, 1999) The vague nature of these regulations ensures that the decision whether or not to comply is essentially at the discretion of the agency, meaning that relying on more foreign contractors could be easily done without needing to change the law.

True to the spirit of the Buy American Act, the agency spends an estimated 80% of all purchases on American goods and services (Dobbs 2001), and indirectly sustains about 200,000 American jobs (Blechman 1997). Yet there are many unintended consequences to this policy. Perhaps the most obvious drawback is the sheer cost to the taxpayer. American goods and services often cost more than their foreign equivalents, and by many measures, this cost differential far outweighs the economic benefit of supporting domestic business (Hewitt and Killick 1996). Also, the enforcement of Buy American provisions creates an enormous administrative burden to determine when such regulations apply and how they should be enforced. Reflecting on his career as USAID Administrator, Andrew Natsios reported that these restrictions were the “biggest headache I had to deal with” (Dobbs 2001).

Finally, Buy American provisions encourage the reliance on capital-intensive projects which have a heavy need for American experts (Berrios 2000:p.20). For example, only 5% of the anti-malaria budget went to purchasing drugs that are widely acknowledged as the best hope of ending the malaria epidemic,<sup>4</sup> while the rest goes to financing salaries, training, travel, and other expenses incurred by U.S. contractors

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<sup>4</sup> In particular, many artemesinin-based combination therapy (ACT), which is widely advocated by the WHO, Doctors Without Borders, and the U.S. Institute of medicine

(Kurlantzick 2006). It is such waste and distortions that have led some to conclude that if, as Jesse Helms claims, foreign aid dollars are indeed being squandered down rat holes, those rat holes are in the United States (Berrios 2000:p.7).

Still, the agency proudly touts its commitment to American business, releasing publicity materials like “Foreign Aid: What’s in it for You?” (Blechman 1997). Measures to continue the practice are spurred on by special interest groups with well-oiled lobbying campaigns. Thurston Teele, head of Chemonics, a major Washington contractor, argues that the Buy American provisions are “a necessary evil...in order to see these programs to Congress” (Dobbs 2001). However, the true impact of the Buy American provisions is not limited to the enforcement of some inefficient regulations. The practice is a sign of an institutional norm of USAID, which manifests itself in a hesitance to employ or contract to people from the very populations the projects are supposed to help.

## **V. Contract Selection at USAID**

### **Types of Contracts**

USAID relies upon several types of contracts which affect the incentives of contractors in different ways. The most straightforward form of contracting used by USAID is fixed-price contracting, whereby a set price is paid to the contractor regardless of extra costs incurred. Typically, fixed-price contracts are ideal for projects that are relatively simple in scope where results are easy to quantify (e.g. installation of medical equipment in a hospital). However, the fixed-price model only composed 28% of the

distribution of contracts awarded,<sup>5</sup> and with the increasing focus on less tangible aid targets (e.g. promoting democracy, entrepreneurship, etc) it is likely that the ratio will continue to decline.

For most projects, by far the most common form of contracting is Cost Plus Fixed Fee, which comprises 67% of contracts awarded.<sup>6</sup> These contracts allow the contractor to charge the government for the costs of implementing the project (within an agreed upon price ceiling), and receive a set fee as profit upon completion of the project. Though these contracts are relatively simple to administer, the contracts offer no incentive for the contractor to avoid lowering costs, and may tacitly encourage wasteful spending. Maren (1997) provides numerous examples of gratuitous waste by contractors,<sup>7</sup> who often pay well above market prices because their “expense accounts” offer no incentive for project managers to shop for the best deal on their purchases. Adding to this recklessness is the notion that aid projects are funded by a “the government’s money” rather than from the contractors themselves, thus weakening the moral imperative to keep costs down.<sup>8</sup>

Cost Plus Incentive Fee (CPIF) contracts are a third type, used in 4% of USAID’s contracts. (Berrios 2000:p.113). There are different models under this category, but a particularly effective arrangement works as follows: USAID and the contractor negotiate the amount a particular project is reasonably expected to cost and a fee paid to the contractor upon completion, called the target cost (e.g. \$1000) and target

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<sup>5</sup> Figures tabulated from 1988-1997 (Berrios 2000:p.113). Note that USAID does not release current figures

<sup>6</sup> Ibid p.113

<sup>7</sup> For example, contractors often pay well above market prices for the living expenses of their expatriate staff. (Maren 1992:p.60, 99).

<sup>8</sup> For example, Andersson and Auer, (2005 p.167) quote one contractor in South Africa for the Swedish International Development Agency saying “This is Sweden’s money, not ours”

fee (say \$100) respectively. If the project costs more than expected (say 30% more, or \$1300), then the contractor's profit is docked by the same percentage (30% less or \$70). If, however, the contractor is able to cut costs (e.g. 30% less or \$700), then the contractor's fee is increased proportionally (\$30% more or \$130). Thus, the contractor has an incentive to operate efficiently.<sup>9</sup> In his survey of satisfaction in the results of projects carried out under these types of contractual arrangements, Berrios (2000:p.114) found that incentive-type contracts were most positively ranked by USAID officers as well as the recipient agents (see appendix: Figure 5). However, his analysis claims that the use of CPIF contracts is likely to remain rare, because it involves protracted negotiations and research to design a workable model. Nonetheless, the incentive-model serves as an example of a way that contractors' desire for profit can be used to promote efficiency.

### **Contract Negotiation**

To better understand why the simplest yet least efficient model is used most frequently, it is helpful to understand how contracts are negotiated. Much of the power rests with the Contracting Officers (COs), who individually oversee the bidding process and are given the final say in selecting the winning proposal. Many COs are meticulous about enforcing regulations to ensure accountability the best they can under the present system (Fisher 2006). However, their best efforts are often subverted by an ineffective incentive structure and a lack of personnel capable of assessing contract proposals.

Contracts are solicited through "Requests for Proposals" (RFPs) which outline the scope of a project and invite contractors to submit bids which include a proposed

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<sup>9</sup> Simplified example of description provided by (Berrios 2000:p.89)

budget and detailed explanations of how the project will be carried out. The proposals are then evaluated and assigned a numerical score, and the highest ranked proposal typically wins the bid. However, there is no uniform way for processing these proposals. Many RFPs are often issued as close as one month before the deadline, and may cost as much as \$50,000 to produce (Dobbs 2001). Moreover, many contractors surveyed by Berrios (2000: p.121) complained that RFPs were often overly vague and poorly written. Not surprisingly, this ensures a lower quality of submissions, which are often lack detail and are difficult to analyze.

## **VI. Project Implementation**

The subjectivity continues once a contract has been chosen, as there are few safeguards for ensuring fairness in how the terms are negotiated. Of particular concern is the lack of a uniform standard for determining how much profit should be allotted in a USAID contract, despite recommendations from the GAO(1989) to develop such a method. In fact, USAID is the only development agency in the world that does not have maximum cap on the portion of funding given as overhead with its NGO contractors (Smillie 1999:p. 14).

This heavy workload places the onus on the COs to negotiate procurement conditions based solely on their own judgement, thus placing more importance on subjective relationships than informed assessment. Many contractors allege that decisions are made based on personal interaction rather than careful analysis (Burman 1997). Similarly, an internal report notes that the “preferences of individual officers,

rather than requirements of specific funding instruments, seem to determine how activities are managed “(USAID 1996)

The cutbacks in contracting staff have meant an increasing amount of pressure vested in relatively few individuals, a measure that has resulted in reports of more stress and lower morale (Quainton and Fulmer 2003). The strain has been worsened by the need for reconstruction in Iraq and Afghanistan has, as the mandate of USAID suddenly grew without a commensurate increase in resources. Timothy Beans, the Chief Procurement Officer, complained that “With no additional resources, we've been asked to let \$1.7 billion in [contracts in] Iraq...my biggest concern is oversight” (Zeller 2003).

Staff shortages also plagued the contracting process while a project is being carried out. After the contract is awarded, the Contracting Officer’s Technical Representative (COTR) works with the contractors to monitor the project and serve as the main point of contact for the agency in the field. Yet many employees state that there are not near enough COTRs that would be required to conduct labor-intensive evaluation measures like surveying end-recipients on project results (Berrios 2000, p. 99). Moreover, an internal audit finds that many COTRs working in the field are “not adequately trained to perform cognizant technical officer duties” (Mosley 2004).

The diminishing of number of technical staff has meant that a greater proportion of USAID staffers are generalists trained in government administration rather than specialists with particular expertise in international development. USAID Administrator Andrew Natsios has cited a lack of technical personnel with field experience, claiming “We don't have enough officers to do the work” (Zeller 2003). From the perspective of a CO, this dearth of technical expertise makes it particularly difficult to design a

contractual arrangement that requires extensive calculations and follow-up by COTRs. Moreover, Lancaster and Dusen (2005) and CGAP (2004: p.3) suggest that this trend undermines USAID's professed goal of becoming a "knowledge agency,"<sup>10</sup> capable of pioneering new ideas in development economics. In this way, an increasingly "generalist" administration may be less likely to innovate by risking new contracting methods.

Thus it appears that due to the insufficient number of qualified personnel who can handle the intricacies of incentive contracts, USAID will continue to rely on cost-plus contracts because they are the least complex. This serves as an example of an unintended consequence of the push toward privatization. While downsizing was conducted in the name of streamlining the USAID bureaucracy, these systemic changes have encouraged the use of inefficient contracting practices. The predicament is aptly summarized by one CO who admitted that "by requiring little of our contractors, we have trained them to ...organize in ways that actually preclude them from accepting responsibility or producing results" (Taber 1996: p.97).

### **For-Profit Contractors vs. NGOs**

Another manifestation of the push for privatization is the increasing reliance on for-profit contractors as opposed to NGOs. While USAID claims it gives contracting firms and NGOs equal consideration, John Zarafonetis of the NGO lobbying group InterAction, claims that in the late nineties, the agency has developed a marked preference for working with for-profit contractors (Dobbs 2001).

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<sup>10</sup> USAID has launched a "knowledge for development" campaign that appears to function as a think tank on development issues. See <http://knowledge.usaid.gov>

Most of the arguments against using NGOs are levied assume that they are unprofessional groups driven by a particularly obstinate streak of activism. The rationale is that since for-profit contractors are primarily motivated by profit alone, they are not likely to engage in practices that may irk USAID and undermine their prospects of gaining future contracts. Thus, in theory, contractors are willing to shape their projects to reflect the specific vision of USAID. NGOs, however, can be much more unruly. While profit is indeed a consideration for NGOs, most non-profit groups are also motivated by a commitment to their cause which may end up conflicting with the worldview of USAID, thus undermining the likelihood that the desired results will be achieved. Another commonly voiced objection to the use of NGOs is that they are often unwilling or unable to comply with accountability requirements, believing that the technical capacity to perform rigorous evaluation procedures is a luxury they do not have. Rather they believe that their passion in the rightness of their cause is its own accountability measure (Smillie 1999a:p.20)

Murrell (2002: p.100) argues that a potential downside to hiring NGOs is that in the pursuit of their own policy agenda, they may be less than scrupulous in demanding accountability from the RAs. For instance, an NGO with a particular political bent may value political affiliation over professional competence when selecting what RAs to work with.<sup>11</sup> However, it would be wrong to assume that for-profit firms do not have an agenda of their own. The “Washington-consensus” shock therapy prescribed by USAID-funded consultant firms charged with benign tasks like “institution building” has been blamed for compounding the difficulties of the Former Soviet Union (Wedel 1998).

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<sup>11</sup> Murrell (2005) claims to have witnessed a Western NGO distorting the result of elections on a democracy-building project

While some concerns about contracting to NGOs may be justified, there is much evidence to suggest that the many NGOs are indeed becoming highly competent. Sogge and Zadek (1996) and Robinson (1997) find that NGOs have been adapting their internal structure to become more “businesslike” in order to improve their ability to bid for contracts. In fact, many of the more “idealistic” NGOs would be less likely to apply for a contract in the first place<sup>12</sup>, since it often means compromising their coveted independence and may require modifying their missions (Berrios 1999: p.59).

It should be acknowledged that NGOs have several distinct advantages in carrying out aid projects. Firstly, they are often motivated first and foremost by their commitment to their mission, with economic gain as a secondary consideration. In his empirical comparison of NGO and for-profit contractors, Murell (2002: p. 98-100) finds that while both for-profit firms and NGOs engage in rent-seeking through contractual relationships, the implications for productivity are different. While for-profit contractors are prone to keep the rent in the form of economic profit, NGOs are likely to reinvest the rent in the program. Thus, even if a contractor NGO abuses its relationship with USAID, the end results may actually bolster the project. Finally, NGOs still have a better reputation throughout the world and are more likely to be well received by the target population of an aid project. Even Lorne Cramer of the International Republican Institute, which advocates laissez-faire economic policy, admits that “contractors are in this business to make money...there’s nothing wrong with that, but there’s no real commitment to the country” (Cohn 2005).

Thus, the preference to promote market forces has led to the exclusion of many contractors who are not motivated by profit. While the inclination to misuse funds for

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political purposes may be problematic with particularly activist NGOs, it is far from inevitable. There are plenty of professional, relatively impartial NGOs who are not given fair consideration. This sentiment was echoed by a Senate which acknowledged that NGOs were “underutilized by the agency,” considering the endemic cost overruns of for-profit contractors (Cohn 2005). If NGOs who apply for bids develop the capacity to comply with contractual obligations, they deserve equal consideration.

## **VII. Evaluation Procedures**

### **Disorganization of Bureaucracy**

While excessive bureaucracy has been cited as a reason to justify staffing and budget cuts, the problems associated with too much government regulation may have in fact gotten worse. The bureaucracy has not been streamlined; it has merely been decentralized, as various parts of the agency both in Washington and at local missions arbitrarily monitor contracts in their own way with little interaction. CGAP (2004:p.7) decries “unbalanced power sharing,” whereby missions are linked only to Washington and not with each other. The agency thus resembles what Bate and Schwab (2005, p.15) term a “blind hydra,” incapable of learning from its mistakes due to its lack of internal coordination when conducting evaluations and developing strategies. The end result has meant less information made available to USAID. In fact, Bate and Schwab (2005, p.18) trace a 75% reduction in the number of evaluations conducted from 1994 to 2003.<sup>13</sup>

The nature of evaluation has changed as well. Since this disorganization makes any qualitative evaluation difficult, officers in Washington usually require quantitative criteria which numerically assesses the degree to which project objectives have been met.

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<sup>13</sup> Specifically, 529 evaluations were conducted in 1994 compared with 135 in 2003

On the surface, the use of hard data may appear to be ideal compared to more qualitative assessments which involve more subjectivity. But this often results in the wrong indicators being measures. USAID does not collect enough data to measure the results of its project. For instance, Bate (2006: p. 118) cites how the only quantitative information used to gauge the success of several anti-malaria programs in Africa was a study which charted the ownership of mosquito nets- a useful figure, but one that is far from sufficient in tracing the spread of the disease.<sup>14</sup> Therefore, as argued by Lael Brainard of the Brookings Institution, this reliance on a rigid rubric of quantifiable results have resulted in “more counting, less doing,” (Lancaster and Dusen 2005:p.4).

This use of detached data sets to evaluate development involved two severe flaws. Firstly, as previously mentioned, the work of development often entails objectives that are not easily quantified (e.g. democracy building), and any attempt to do so without providing the proper context can result in significant distortions. Also, the dearth of technical experts who are capable of verifying the objectivity and accountability of the data may mean that the information gathered is factually inaccurate. For instance, Bate & Schwab (2005) analyzed several reports on the results of anti-malaria initiatives and found numerous clear inconsistencies and even mathematical errors. Thus, quantitative data is not necessarily any more reliable than quantitative measurements.

### **Rent-seeking and Evaluation**

The evaluation process is often skewed to favor the contractors and even encourages rent seeking. Since USAID lacks of technical experts to follow up on projects, much of the information the agency uses to evaluate projects is provided by the

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<sup>14</sup> Even this information was achieved by contracting out at a cost of \$65.4 million

contractors themselves. Crafted as part of the Clinton-era reforms, this process is couched in amicable language, citing the need to cultivate a sense of “teamwork” and “partnership” between USAID and its contractors (Berrios 2005: p.99). But in reality, the contractor often has much more leverage. For instance, Once a project evaluation is completed, a contractor still has the prerogative to challenge a negative score through a protracted appeal process. Berrios (2000:p.103) claims that this results in the agency tending towards leniency simply to avoid the hassle of lengthy disputes.

This example illustrates how such collegial relationships between the agency and its contractor may not be advisable given the different motivations of the parties involved. In particular, any such “trust” cultivated between the two parties make the contractor more prone to engage in rent-seeking. As previously mentioned, a contractor’s primary disincentive for exploiting information asymmetry is the fear that unethical behavior will eventually be exposed, harming the prospects for future contracts. If a contractor feels confident such distortions can be overlooked or reconciled in the spirit of “partnership,” they are more likely to provide false information.

Thus, it would appear that the initiative to streamline evaluation mechanisms has backfired. This conclusions was echoed in an internal study of USAID’s accountability mechanisms, which found that over the course of the reform efforts, the agency “became confused and began to equate [internal] performance monitoring with evaluation [of results]” Weber (2000:p.5). The process has affected the way contractors operate, transforming their role into what Dobbs (2001) calls a “paper factory,” generating “reports [that] are designed to impress congressional appropriators but end up vanishing into a vast bureaucratic hole.” Moreover, the current method of evaluation

focuses entirely on the interactions between USAID and its contractors to the exclusion of the RAs or the beneficiaries of the aid projects, whose welfare is supposedly the main concern of the agency. Thus, rather than trimming needless bureaucratic waste and creating simpler mechanisms which ensure accountability, the cutbacks have yielded more confusion and generated more opportunities for rent-seeking. This point is forcefully argued by Weber (2004:p.15):

“It is clear that the Agency is losing its “knowledge” and has chosen a technology ‘fix’ which, unfortunately, will not fix the fact that our evaluations are insufficient... There needs to be some immediate action taken to rectify the situation before the Agency’s knowledge base is lost and is left with a wholly inadequate, incomplete picture of its many, significant activities.”

### **VIII. Collusion in Contracting**

A major criticism of the way USAID contracts are given is that the same few firms are continually awarded large bids. A “peer review” of USAID staff indicated that one of the main weaknesses of USAID is the “perceived trend of reliance on a few US contractors” (CGAP 2003:p.7). Since the presence of competition is critical to ensuring the success of privatization efforts, the rise of group of powerful contractors threatens to undermine the benefits of contracting. These contractors are essentially able to act as a cartel, arranging contracts which are heavily in their favor to the detriment of the government and aid recipients.

It is even becoming increasingly common for several firms will work together on a single proposal (Berrios 2000:p.50). From the bidders’ perspective, working together is a way of dividing the large costs associated with preparation and offset risk. Yet from the vantage point of USAID, this phenomenon essentially amounts to collusion by decreasing the amount of competition, thus undermining the

benefits of contracting out. This collusion between contractors can even reach criminal levels. In 2000, American International Contractors Inc. was found guilty of rigging USAID contracts in Egypt by paying off potential competitors for not bidding on certain projects (U.S. Department of Justice 2000)

Even in instances where the specialization that small contractors can offer would appear to work to their advantage, the same few contractors are often able to win bids by reinventing themselves. For instance Stavrakis (1996) recounts how the Foundation of the Peoples of the South Pacific underwent a reorganization (which included hiring USAID staffers) and subsequently won major development bids in Ukraine!<sup>15</sup> Not only do instances like these demonstrate the power of large contractors, but they also have direct consequences for project effectiveness since insider contractors that are unfamiliar with a region are less likely to succeed than new bidders with local expertise.

## **Legal Framework**

The legal basis for ensuring competition remains weak and difficult to enforce. The primary legal code which is supposed to ensure free and fair competition in the contracting process is the Federal Acquisition Regulations, and the agency's supplementary policies contained in the USAID Acquisition Regulation (AIDAR). While these regulations permit non-competitive bidding in exceptional circumstances, USAID has in fact been able to exploit such exemptions as a matter of course. For example, the AIDAR allows for non-competitive

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<sup>15</sup> The project was later seriously bungled when it hired a widely known former CIA officer, leading to widely held suspicions among the recipients that the project was a shell group for espionage (Corwin 1994)

contracting when competition would “result in substantial additional costs to the government or result in unacceptable delays,”<sup>16</sup> or “have an adverse effect on programs conducted for the purpose of foreign aid, relief, and rehabilitation.”<sup>17</sup> Yet, a report by the agency’s own Office of the Inspector General auditing contracts in Iraq finds that nine of the eleven contracts have been awarded with “less than free and fair competition.” Of these contracts, five were found to have clearly violated the AIDAR, and several others showed “areas where contracting practices need to be improved.” (Mosley 2004) One USAID employee who had previously worked at the Department of Defense (a department which is no stranger to controversy in its own contracting procedures) was “shocked” at USAID’s reliance on such loopholes (Bate & Schwab 2005: p.14). Thus, the regulations cannot be trusted to ensure competition as long as loopholes can easily be exploited.

### **Buy American Provisions**

The most direct way that competition is through the Buy American provisions which discourage the hiring of foreign contractors. Besides the nationalistic appeal, the main argument for excluding indigenous contractors is that they supposedly lack the competence to carry out development projects. However, this is becoming less true. While some particularly small or poor countries may be lacking in qualified professionals, but this is not the case in many of the countries where USAID works (Lancaster and Dusen 2005:p.36). For instance: the formerly ‘Second World’ nations of the Eastern Bloc, which received a huge influx of aid during the nineties, already had a

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<sup>16</sup> AIDAR 706.302-706 b(5)

<sup>17</sup> AIDAR 706.302-706 a(2)

plethora of educated professionals. Underemployment of such personnel was a major problem, as many highly skilled individuals were forced into low-skill jobs just to make ends meet. Countries in this predicament would seem prime candidates for development projects that can employ locals, allowing them to exercise their full potential while helping their nation weather the economic transition.

Unfortunately, USAID took the opposite route, hiring teams of highly paid American consultants known as the “Marriot Brigade.”<sup>18</sup> This was met with disillusionment by many members professional class. A leading Polish development expert noted that the “Americans arrived with their wives, dogs, cats, and children, causing many more problems than they solved.”<sup>19</sup> In such cases, the refusal to consider hiring local contractors to carry out development projects in their own countries is counterproductive. Not only do American contractors cost much more, they are often less effective than a local contractor could be.

### **Importance of Washington**

Also, personal relationships in Washington have become more important to the agency. As missions worldwide were closed and experienced staff cutbacks, Washington headquarters became more central to the contracting process. As a result, Washington firms received gradually increasing amounts of contracts (Deady 1997). Twenty-five contractors are awarded the vast majority of contracts, and 55% of all bids selected go to contractors located in the Washington DC area (Berrios 2000: p.45). A report conducted by Congressman Jim McDermott found that 53% of all aid dollars earmarked for fighting

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<sup>18</sup> So called for their proclivity for the luxury hotel chain, where they stayed on their frequent jaunts to the region’s capitals, (Wedel 1998)

<sup>19</sup> Jerzy Fishcer, Polish development consultant, quoted in Dobbs (2001)

AIDS “never left the Washington DC area.” (Dobbs 2001) While geographic location of a firm within the United States is not officially relevant to the bidding process, these trends indicate that physical proximity nonetheless plays a role in determining which firm is awarded a bid.

### **Political Favoritism**

Political considerations may affect the contracting process as well, as the agency may seek to reward politicians who support the funding of USAID by granting contracts to firms in their districts. Fleck and Kilby (2001) conduct an econometric analysis of the relationship between USAID contracts awarded to congressional districts and votes cast in favor of funding the agency. While the results do not indicate a general trend showing that USAID is buying congressional support, they do identify a critical constituency which may have significantly affected the move towards contracting. The few “Beltway Republicans,” whose Washington-area districts received the largest amount of contracts, were indeed more likely to break ranks with their fellow conservatives who were aiming to shut down or significantly curtail USAID. These findings are thus consistent with the notion that USAID’s shift towards massive reliance on contractors helped shore up political support for continued funding of the agency

### **Fear of Bad Press**

Given the uproar caused by the bad press in the aid business, USAID is loath to take any risks that may result in fodder for those seeking to shut down the agency. Hyden and Mease (1999) argue that this fear of the negative publicity from stories of

fraud has led to a bias against using new contractors. From USAID's perspective, even if it is more efficient to allow open competition, reliance on a few trustworthy contractors is preferable, even if those few contractors are wasteful. In practice, this means that the bidding practice is plagued by what Bate and Schwab (2005b) term as "Kafkan anti-fraud practices," which constitute an enormous paperwork burden that only trusted Washington insiders can effectively navigate.

Ironically, this bureaucracy may in fact make it easier for unscrupulous contractors to conceal their actions. This has created what Bate and Schwab (2005b) call a "vicious cycle" whereby the same few contractors with insider knowledge are able to win bids, and subsequently conceal their errors in "swaths of red tape." Thus, the supposed goal of maintaining probity in contracting practices may be substantially undermined, for the current atmosphere of collusion and cronyism provides numerous opportunities for rent seeking and unethical business practices. So, while outright fraud may remain rare, wasteful supply chains and unethical business practices abound.

### **Contract Scope**

Moreover, the sheer scope of many contracts precludes the participation of small contractors.<sup>20</sup> Instead, larger firms end up winning contracts and then subcontracting out the specialized work, a process which has been consuming increasing amount of project overhead (Cohn 2005) Consider a hypothetical illustration of this trend. Imagine an institutional reform initiative, whereby USAID wishes to provide training for employees

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<sup>20</sup> In his testimony before the U.S. Congress, Plank (2005:p.4) recounts this phenomenon occurring with USAID's microenterprise programs.

of five government ministries of a developing country. There are two potential ways that USAID could handle the contract.

- (1) The most straightforward approach would be to issue five contracts, which would be awarded to five contractors (either small or large).
- (2) The likely modus operandi of USAID, however, would be to offer one contract which requires a single contractor to train all five government ministries. This project is too formidable for small contractors to handle, so only large contractors would be able to bid. Yet to carry out the project, these large contractors often subcontract to smaller firms or NGOs anyway to act as RAs to conduct the training sessions.

There are several implications of this model. From the perspective of USAID, the first option is more labor-intensive, as it requires the solicitation of five contracts instead of one. Yet in the long run, the first option is much more efficient, as the second option requires the involvement of an intermediary with high overhead costs and the potential for rent-seeking behavior. Moreover, by transferring control over the hiring of the actual trainers from the agency to a contractor, the prospects for success diminish. This is because the trainers in option (1) are directly beholden to USAID, which measures success in terms of how well they meet the project objectives, while the trainers in option (2) are beholden to contractors which measure success exclusively according to the bottom line.

## **Lack of Transparency**

This aversion to negative publicity may also lead to a lack of organizational transparency. USAID does not release the financial details of the bidding process to the public, citing the need to keep “proprietary” information secret (Bate 2006: p. 116). USAID missions have even been found to engage in misleading practices to conceal reports of negative progress. For instance: according to agency regulations, “assessments” may only be perused by management personnel whereas “evaluations” are publicly accessible. So, some missions have been known to categorize of negative reports as “assessments,” while releasing positive reports as “evaluations” (Weber 2004: p.17). in their survey of USAID contractors, Bate and Schwab (2005:p.12) found that many were unwilling to go on the record with critical remarks for fear of jeopardizing prospects for achieving future contracts.<sup>21</sup>

In the short run, keeping much of the agency’s activities shielded from public view might forestall criticism that could affect funding. However, hiding data and discouraging open discussion about USAID policies is not a productive strategy in the long run. Secrecy prevents effective information sharing and defuses pressure that could be applied to spur innovation and bring about needed reforms.

## **IX. Contractor-RA Relationship**

Another important component of ensuring the success of aid projects is the relationship between the prime contractors and recipient agents who carry out the development projects. As previously stated, the optimal relationship involves contractors

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<sup>21</sup> Bate and Schwab (2005) were also unable to find USAID staff at regional missions who were willing to share their experiences. Similarly, the author was thrice denied permission to interview USAID officials.

who are familiar with the country they work in and regularly interact with the RA, thus acting as a broker between the agency and RAs. Murell(1999) empirically demonstrates this phenomenon, charting an inverse relationship between contractors' "embeddedness" and rent-seeking (on the part of the RA and the contractor). In his discussion of contracts in Iraq, Fisher (2006) describes how contractors that relied heavily on local RAs and maintained regular contact with USAID were relatively successful, contrasted with the "arrogance and lack of development experience" of contractors who lacked this embeddedness.

From the contractor's perspective, however, the desire for control over a project acts as a disincentive for them to encourage RA participation in project planning, (Plank 2005:p.4). Thus, in the absence of effective evaluation by USAID, many of the very problems which plague the dynamic between the agency and its contractors are also manifested in the interactions between contractors and RAs.

One of the most common problems is the physical isolation of contractors from their RAs. Just as the USAID contracting process is skewed towards contractors located in Washington, subcontracting is often done from afar as well, meaning that representatives of the contractor are not able to adequately survey the projects they fund. In their case study of a major anti-malaria programs in Kenya, Olenja et.al.(2003) find that a major factor inhibiting success was the sheer lack of physical contact between the RAs who worked in the Bungoma district of Kenya and the contractors who operated mainly out of the United States. This case is hardly atypical, as contractors often cite security concerns or logistical problems as preventing them from working in the field. Unfortunately, aid projects by their very nature often occur in difficult locales, and if a

contractor is compelled to manage from afar, the benefits of contracting out seem less clear. Discussing the Bungoma case, (Bate and Schwab, 2005) point out that “If contractors could not manage a presence in Kenya, which is stable, English speaking, and well developed relative to other LDCs, there is little hope that the can be effective in more challenging venues”<sup>22</sup>

Some contractors cite security concerns as a justification for not making field visits, as is often the case in Afghanistan (Coker and Usher, 2005). In this case, the lack of monitoring is blamed for considerable waste, with simple infrastructure projects running behind with large cost overruns.<sup>23</sup> However, it is worth remembering that contractors in danger zones are often paid much higher rates than the market would otherwise support in order to offset the security risk. Thus while security concerns in a combat zone are understandable, they should not be used as an excuse for inadequate oversight.

### **Uncompetitive Selection of RAs**

Subcontracting procedures at the contractors’ missions appear to emulate many of the same practices that USAID engages in when awarding prime contracts. Since most prime contracts are cost-based, a contractor has no inherent incentive to economize by hiring local contractors because USAID is contractually bound to reimburse the subcontracting expenses. Thus, they are more likely to rely upon the same group of familiar subcontractors despite their increased cost. The American

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<sup>22</sup> Bate and Schwab (2005). p.29

<sup>23</sup> For instance, USAID contractors had built only 30% of the schools they had promised by late 2004, with components like coat of paint costing as much as the entire amount allocated for the school . Schools built by independent Western NGOs cost around 10,000-20,000 less than those built by U.S. Contractors. (Coker and Usher 2005)

bias often affects the selection process, as contractors are often more likely to subcontract to American firms favored by USAID than local firms that may in fact be more capable of carrying out the project. The process starts from the issuance of RFPs, which are often designed to favour U.S. subcontractors or local firms with personal ties to USAID or its contractors. For instance, (Pejman 2003). recounts how the director of an Iraqi engineering firm complained that USAID prime contractors issue RFPs that require extensive preparation as little as four to five days before the deadline, and observed how most of the bids awarded have gone to non-Iraqi companies favored by the U.S. administration

### **Effect on Sustainability**

The hesitance to hire local contractors also undermines the capacity of the projects to generate sustainable outcomes. While offering work to a local firm or NGO generates lasting employment and provides profit that stays in the country, U.S.-based subcontractors are likely to cease operations when a contract is finished, expropriating the profits and laying off the local workers. In discussing a “capacity building” USAID initiative in Egypt, Abdel-Razek (2001) outlines the resentment which locally hired professionals feel towards the large sums of money spent hiring U.S. counterparts who work for contractors like Bechtel and Arthur Andersen. (Abdel-Razek 2001)

Also, projects designed by locals are more likely to be embraced by the aid recipients. O’Grady(2005) provides an illustration of this trend, recounting how patronage has undermined sustainability in Ecuador: A local academic launched a government reform project that garnered wide support throughout the country and even

qualified for a special earmark by the U.S. Congress. Despite this success, the local RA was replaced by Washington-based contractors and subcontractors, arousing the resentment of Ecuadorian civil society.

### **Elitism among RAs**

Even when local RAs are hired, they are often more accountable to the contractors than the population they are supposed to serve. In theory, USAID is strongly committed to preserving the independence of RAs acknowledging that “without independence, the fundamental value associated with [local RAs] and USAID’s working with them is diminished” (USAID 1995:p.6) Yet in reality, contractors often end up hiring RAs led by staff who are Western-educated, proficient in English, and well-versed in the lingo of the development field. Stavrakis (1996) terms these individuals “poster children” of USAID, who are “superb for presentational purposes in America but...have little in common with the ordinary [people] who should be the real targets of a serious assistance program.” Warren van Wicklen found similar problems in Central America, where USAID-funded RAs became pawns of local elites (Hellinger et. Al. 1999:p.102-3)

There are several reasons contractors hesitate to hire more “indigenous” RAs. First, since contractors often operate in countries with major cultural and linguistic differences, subcontracting to RAs who truly represent the local population can be a labor-intensive endeavor (i.e. a contractor would have to work through translators, travel farther afield, etc.). It is important to bear in mind that there is often little monetary incentive for the contractor to hire indigenous RAs as opposed to Westernized RAs, because though the latter is more costly, both types are usually reimbursed by USAID.

More importantly though, Westernized RAs are less likely to question project directives. While indigenous RAs depend on the approval of the local population for their legitimacy, Westernized RAs are exclusively dependent on the contractor. Similarly, a contractor primarily concerned with maintaining a long-term relationship with the donor will by nature be more concerned with pleasing the donor than delegating power to the RAs. Contractors will thus ensure that the RAs they hire are docile enough, and not raise objections to mission directives even when they appear to undermine the welfare of the recipients (Anderson and Auer 2005:p.166). So, even if a project may seem ill-suited to the needs of local populations, Westernized RA are still inclined to take the attitude that it is “better to get some funding than not at all,” as expressed by a South African RA (Andersson and Auer 2005: 168). One USAID contractor in Tanzania recalls how local NGOs brought in ostensibly to serve as “partners” were really there to “rubber stamp the decisions,” and a USAID official overseeing the same project acknowledged that “the Tanzanians are brought there at the end to stand there and nod yes” (Snook 1999:p.97).<sup>24</sup>

Conversely, some RAs who feel sidelined or condescended by the contractor are more inclined to engage in rent-seeking as a tacit form of sabotage (Gardner and Waller 2005). Writing well before the information age, Smith (1984: p.48) quotes former aid worker Tim Brodhead, who argues that Western NGOs have failed to recognize that the “the Third World is coming of age,” and indigenous NGOs are increasingly demanding to be treated as equals. If USAID refuses to engage in meaningful dialogue and legitimate

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<sup>24</sup> Andersson and Auer (2005:p.168) do note some exceptions to this. For instance, many local RAs in Vietnam are “obsessive” about budget and contract details, behaving like “the boss” of the projects they are put in charge of.

power-sharing with the locals the agency works with, it may encourage RAs to resort to less than scrupulous ways of balancing the power relationship. Since information asymmetry is a key factor which can potentially skew towards the RA (Smillie 1999:p.31), resentment of the agency's management practices could motivate RAs to distort and falsify data as a method of reasserting their control over the project.

### **Global Branding Campaign**

One of the starkest illustrations of a Washington-imposed directive that threatens to undermine the contractor-RA relationship is the Global Branding Campaign, which is infused with both nationalistic sentiment and the belief that aid should be marketed like a business. Launched in 2005, the campaign mandates that all publicity materials associated with a project be fitted with the USAID logo. In theory, mission directors have the authority to exempt certain contractors from this requirement. However, a mission director may indirectly oversee hundreds of specific projects (a contractor may carry out multiple projects in a single bid), and there apparently lacks a standard procedure for requesting exemptions (USAID 2005c).

It is easy to see why a business aiming to reap profits would wish to ensure that consumers remember its brand name. With an aid agency, however, the benefits are much less clear. USAID merely cites the vague rationale of the need to ensure that “the United States Government and American taxpayer receive credit for funding assistance (USAID 2005a).” Yet several clear drawbacks can be traced to this campaign. Firstly, the campaign adds another layer of bureaucracy to contracting relationships. The agency

recently released 29 pages of legalistic language detailing the intricacies of where and what size the logo should be, depending on the media used and phase of the project (USAID 2007; see appendix ). Adding such complication seems to be anathema to the push to streamline USAID procedures. More importantly, however, emphasizing their association with USAID may not be ideal for projects likely to stir controversy. For instance, a contractor in Malawi was criticized by local religious groups for putting up billboards encouraging condom use, and USAID immediately bore the brunt of criticism (Ruud, 2002). Moreover, given the rise of anti-American sentiment throughout the world due to U.S. involvement in the Middle East, it is likely that a contractor or RA operating in a Muslim country may not wish to emphasize their association with the American government.<sup>25</sup> Finally, some complain that the logo communicates condescension, arousing more animosity than gratitude on the part of the recipient.<sup>26</sup>

Certainly, there are times when a contractor may wish to use the logo to gain legitimacy for their project, and there are times when its presence has no effect at all. Yet it seems that this should be left up to the contractor to negotiate with their RAs on a case-by-case basis. It should be of much less concern to the American taxpayer if they are acknowledged for their help; of much greater importance is whether or not the project succeeds. Given how high the stakes are, it remains confusing why USAID would introduce such measures that stand to jeopardize the likelihood of success.

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<sup>25</sup> This point is ironic since the website of the Global Branding Campaign (USAID 2005b) cites the need for diplomacy in a post-911 world as one of the reasons for the push for increased brand identification.

<sup>26</sup> Maren (1997: 69) recounts an RA's disdain for the "handshake bags" of food distributed in Somalia (so named for their adornment of the USAID logo)

## **Impression on Recipients**

In the end, the success of a project depends not on the satisfaction of the contractors or even the RAs, but rather the recipients. Unfortunately, the current dynamic of the contractor-RA relationship project sends exactly the wrong message, arousing more resentment and suspicion than gratitude. From the locals' perspective, the refusal to meaningfully engage the local populations communicates a message of aloofness and even colonialism.<sup>27</sup> For example, from the perspective of the many Iraqis who comprise the ever-dwindling ranks of the professional class, the refusal of the U.S. to hire competent local contractors in favor of foreign firms new to the region is more than inefficient spending. In the face of disastrous economic prospects, the trend epitomizes the disillusion and dashed hopes of the Iraqi people during the bungled reconstruction effort (Pejman 2003).

Sometimes these problems can lead to an impression which directly contradicts USAID's values. For example, in discussing USAID's projects in Russia, Stavrakis (1996) argued that the shady accounting practices of many contractors at the Moscow mission mirrored the tacit corruption networks of the former Soviet Union. Not only does this harm the efficiency of the program, but it also shows that the same norms which applied under an authoritarian society are tolerated and even rewarded by the U.S. government. As part of its post-Soviet transition, USAID had endeavored to "nurture the full range of democratic institutions, processes, and values (GAO 1996:p.4)." This is a formidable task in a region plagued by cronyism between top bureaucrats and private oligarchs. Yet far from emulating a better model, Stavrakis(1996) points out that the

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<sup>27</sup> For instance, Dobbs (2001) quotes a Polish development worker condemning the "colonialist approach" of USAID

close relationship between USAID and contractors “conjures up a familiar image from the past where distinctions between state and social organizations were meaningless.”

## **X. Policy Recommendations**

### **Discourage Collusion among Contractors**

“Insider” contractors should not be able to use their influence to prevent new contractors from attaining bids. One helpful measure would be to bar the contractors who provide input used to design RFPs (e.g. in responding to “requests for information issued by the agency) from bidding on those very projects, a regulation which is currently in place with the Swedish International Development Agency (Anderson and Auer 2005:p.165).<sup>28</sup> Rather, these contractors could be awarded through direct monetary compensation as well as some sort of official acknowledgement which could help bolster the contractors’ overall reputation.<sup>29</sup> This would have several benefits. First, contractors who are not concerned about bidding for a proposal in a region in which they have worked are more likely to provide accurate information which should in turn result in more appropriate RFPs. Second, the bidding process for new projects would become fairer as no contractor would have a clear advantage. Third, since the RFPs would be uncolored by the perceptions of one particular contractor aspiring to the bid, the increased competition could lead to more diverse and creative approaches among the proposals submitted.

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<sup>28</sup> Exceptions are sometimes made for projects which few Swedish contractors are qualified for. Since USAID would draw upon a much larger applicant pool, these exceptions likely not be warranted.

<sup>29</sup> Such findings were suggested by Andersson and Auer (2005 :p.169), who found that non-monetary incentives can in fact be quite useful in motivating aid contractors

The downside would be the potential loss of utility that results from forbidding the most informed bidders from winning a contract. Still, this concern would appear to be outweighed by the increased efficiency brought about by encouraging competition on a level playing field.

### **Encourage Transparency**

Details about the contracting process should be made much more accessible. One step in the right direction in the “Federal Funding Accountability and Transparency Act,” which establishes a publicly accessible searchable database of all contracts and subcontracts.<sup>30</sup> To be launched in 2009, the website will list the name and location of all contractors (U.S. House 2006). This would allow watchdog groups to chart trends in contract distribution, providing an incentive for both USAID and its contractors to engage in fair contracting practices. To this end, another useful measure would be to release the details about the bids submitted which were not chosen.

This database should also be expanded to include project evaluations. Lancaster and Dusen (2005:62) and Quainton and Fulmer (2003) have argued that all project evaluations should be publicly accessible. This would indeed encourage transparency, though some elaboration is required to ensure its effectiveness. The agency should be required to release all evaluation-related documentation occurring at all stages of project implementation. No distinction should be made between “assessments” as well as “evaluations,” lest the incentive remain to suppress the release of negative results through

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<sup>30</sup> Ironically, the impetus for the bill came from conservative groups critical of foreign aid. Tob Coburn, a conservative congressman, sponsored this bill once it was revealed that funding earmarked for preventing the spread of HIV/AIDS ended up supporting a local subcontractor that supported the legalization of some forms of prostitution. (U.S. House 2006)

obstructive categorization. If a compelling reason existed to avoid releasing an evaluation to the public (e.g. national security concerns), the document could be classified by the State Department according to the proper procedure. As a public agency, USAID should not be allowed to unilaterally withhold such reports.

Such measures are likely to be staunchly protested by contractor lobbying groups for violating “proprietary information,” but it is in the public interest in ensuring that tax dollars are well spent should outweigh such a consideration.

### **Create a Evaluation Arm of USAID**

The notion that contractors can conduct much of their own evaluation in the spirit of “partnership” must be reconsidered. Contractors have the monetary incentive to conceal bad information, and the information asymmetry of development projects makes it easy for them to do so. One trend that the agency has been testing is the use of third party contractors to conduct evaluations.<sup>31</sup> However, Prager (1992:p.18) finds that monitoring of contractors should be not be contracted out, it should be conducted by the agency itself. This is because both the prime contractors and evaluation contractors have the incentive to collude: prime contractors could pay off the evaluators in exchange for positive reports. Conversely, Corwin (1994) discusses how some evaluating contractors have been known to issue negative assessments to savage their rivals, thus helping improve their own prospects at winning future bids. To guard against such phenomenon, USAID would have to monitor the monitors, a costly endeavor which obviates the need for outsourcing evaluation in the first place.

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<sup>31</sup> In fact, many projects financed by intergovernmental agencies like the United Nations require evaluations to be conducted by an independent third party contractor (Prager 1992:p.19 footnote)

To this end, an independent centralized evaluation branch of USAID would allow the agency to conduct more effective assessments. Relying on limited data sets provided by contractors is insufficient for development work. The agency must be able to conduct exhaustive assessments that rely on qualitative as well as quantitative criteria, and such assessments must be conducted by a single branch of the agency to avoid the “blind hydra” phenomenon. Lancaster and Dusen (2005:61) suggest the creation of an evaluation arm of USAID that reports not only to the USAID administrator but also to the Office of Management and Budget (the executive agency responsible for overall government oversight). This would help preserve a healthy distance between the officers who conduct evaluations and those who award future contracts.

### **Encourage Realistic Evaluation**

While positive feedback is often quite useful to promote progress, the optimistic nature of the feedback collected on completed contracts may paint an incomplete and overly rosy picture of USAID’s success, making it difficult for the agency to learn from its mistakes and develop new strategies. For instance, Weber(2004:p.7-8) argues that the agency places too much emphasis on reports of success at the cost of honesty. She suggests, for instance, that the agency is overly optimistic in requesting that reports and publications feature “*success stories*” and “*best practices*” as opposed to the more even-handed “*lessons learned.*” Smillie (1999a:p.32) suggests that donor agencies should work to “take the sting out of failure,” such that a positive evaluation would include not only a laundry list of successes, but also a productive discussion of mistakes made and obstacles encountered. For these reforms to be enacted, the agency would therefore need

to develop a higher tolerance for criticism, confident that the internal debate will eventually yield smarter strategies.

### **Directly Engage with RAs**

USAID frequently praises RAs for their role in ensuring that the recipients' needs are met, and a 1995 report even advocated shifting much of the agency's development work from U.S. contractor NGOs to the "indigenous NGO sector"(USAID 1995:p.8). Yet while this report outlined many strategies for improving communication with contractors, the provisions concerning RAs remained vague, and it appears that in recent years the views of RAs have been increasingly excluded.

USAID should directly interact to a much greater extent with the RAs who are implementing development projects. This would provide a check on the power of the contractor by helping to mitigate the information asymmetry dilemma. Naturally, the contractor would still be the primary intermediary (otherwise they would be irrelevant altogether), but they would no longer be able to monopolize control over the project.

Anderson and Auer (2005:p.170) provide examples of successful projects where the RAs were actually consulted to help select the prime contractors. This idea would require much more effort on the part of USAID, who would have to expend considerable technical expertise. For this method to work, the RAs must be more indigenous and thus knowledgeable about what projects will succeed in their country. While it may be tempting for USAID contractors to opt to work with Westernized RAs, the agency is at least in a better position to make such decisions since its employees are more directly charged with upholding the public interest.

Engagement with RAs should not stop after a contractor is selected. RAs should be able to play a role in evaluating the success of the project. Smillie (1999a:p.33) argues that contractor NGOs should be rated by subcontractor NGOs, and it stands to reason the same idea could be applied to for-profit firms, whereby RAs rate the performance of the contractor upon completion. This measure would act as another check on the power of the contractor and ensure that USAID remains in touch with the recipients of its aid projects, thus promoting a “two-way learning process” (Hellinger 1998:p.53).

### **Institute a Preference for Nonprofit Contractors**

Though it betrays the dogma that “business does it better,” non-profit firms are often better able to handle development projects, since they are less-inclined to engage in economic rent-seeking and are often better perceived by recipient countries. The argument that NGOs are less professional is quickly losing relevance, as non-profit contractors have adopted structures that increasingly resemble businesses. There is already considerable pressure to move in this direction. For instance, the 2006 State Foreign Operations spending bill has placed a \$250 million dollar cap on the use of for-profit contractors, despite the intense lobbying of Washington trade associations (Cohn 2005).

### **Waive the Buy American requirements**

The Buy American provisions do more harm than good, as they result in aid being unfairly diverted to a short list of firms with political connections. The benefits to the American economy are marginal, while the costs to efficiency are far greater since

these policies promote collusion, discourage specialization, undermine sustainability, and provoke anger among aid recipients. Current Administrator Randall Tobias waived the requirements for the programs under his jurisdiction in 2004, when he was working as the Global AIDS coordinator (U.S. State Department 2004). Since heading the agency, he has questioned the practicality of Buy American provisions in his testimony before the Senate (Bate 2007). Given the numerous loopholes contained in the legislation, an act of Congress would not necessarily be required to circumvent the restrictions. With many USAID programs, the Administrator could simply issue a waiver affirming that a preference for American firms undermines the effectiveness of aid projects, thus justifying the need to open contracts to foreign competition.

### **Hire more local contractors**

Where possible, USAID should eliminate the U.S. intermediary, hiring local firms and NGOs as prime contractors, as advocated in a report from the U.S. Senate.(Dobbs 2001) A streamlined, multi-lingual system for registration of non-US NGO contractors was introduced in 1996 (Smillie 1999b:p.253), but the preference for American contractors hinders their widespread use. In some instances where local contractors lack the capacity to run projects completely on their own, U.S. consultants may be helpful in providing training (Dobbs 2001), but this should be done with the explicit objective of allowing the local contractors to eventually gain full control of the project.

Hiring local contractors has four distinct benefits:

- Inviting more bidders increases competition and thereby increases efficiency;
- Local contractors often cost much less to the taxpayer;
- Local contractors often have the regional expertise that U.S. firms cannot offer;
- Employment of local agents helps build capacity, which promotes sustainability.

These benefits surely appear to outweigh the slight benefit to the American economy provided by the preference for U.S. contractors.

### **Cancel the Global Branding Campaign**

Branding is a useful marketing tool when selling a consumer product, but not in promoting development. Contractors and subcontractors should be permitted and even encouraged to use USAID's logo when it suits their needs. However, requiring them to do so may directly undermine project goals, which is too heavy a price to pay in return for the intangible benefit of crediting the American people.

### **Hire more Technical Experts**

To achieve the initiatives proposed thus far, an increase in technical staff is required. In particular, more Contracting Officers and Technical Representatives should be hired. When possible, these employees should work at the regional missions allowing them to physically meet with the contractors and RAs carrying out the project. This would proffer two distinct advantages. First, Contracting Officers would be able to

devote more resources to drawing up well-designed RFPs, analyzing proposals, and selecting bids. More staff would also allow COs to offer incentive-based contracts, which have been shown to increase efficiency and yield better results for all parties. Second, an increase in COTRs would ensure that contractors are held accountable, minimizing the opportunities for abuse and ensuring that aid reaches its recipients. These changes would help lessen the risk of fraud, which should in turn lead to more competition among contractors as COs become more confident in the potential of newcomers to manage projects

### **Hire more Local Staffers**

An increase in technical staff working in field missions could be offset by decreasing the numbers of American administrative staff (e.g. human resources and accounting staff). Now that technology allows the quick and cheap transmission of data, it is possible for administrative specialists to work out of Washington. Lower level administrative functions (e.g. human resources, accounting, etc) that need to be carried out at the missions can often be provided by locally hired staff, as suggested by Lancaster and Dusen (2005:p.63).

In fact, a study on improving human capital at USAID (Quainton and Fulmer 2003:p.12) found that the potential of hiring local professionals to work in foreign missions has been underutilized, due to “unwarranted assumptions about their abilities.” Some critics have argued that the use of foreign personnel to work directly for the agency would compromise national security concerns, but as the report points out, very few

positions actually entail working with sensitive information. The report recommends hiring more locals, and putting them into positions of greater authority when warranted.

### **Make the Case for Foreign Aid**

These recommendations would require a re-evaluation of two fundamental assumptions that have characterized USAID's public image in recent years: greater competition from foreign RAs and prime contractors, and increased checks on the free market. Increases in technical staff to oversee contractors are likely to be rebuked by some anti-government conservatives. However, the political climate has changed since the nineties, and it is easier than ever to make the case for a more effective aid agency. With the vast increases of foreign trade occurring over the past few decades, Americans are more accustomed than ever to participation in a global economy. Take the example of Wal-Mart, which has changed its image from that of an All-American company committed to U.S. industry to a global corporation able to offer cheap goods through efficient supply chains. Likewise, the message of cost-effectiveness and accountability is likely to resonate with the American taxpayer (and by inference the Congress) more than a nationalistic "Buy American" appeal.

Moreover, foreign aid in general has the potential to garner more public support. Compared to most developed nations that donate much more, the United States does not attempt to educate the public about the role of foreign aid. (Lancaser and Dusen: 2005:p.64). Kull and Destler (1997) report that many Americans' sceptical views of foreign aid are informed by vastly inflated estimates of how much aid is actually given, and that when informed of how much the government actually spends, many people

support an increase in aid. Thus, increasing the size and mandate of USAID and outsourcing less control to contractors should be a relatively simple case to make. The agency would need to demonstrate to the everyday taxpayer and members of Congress that their money is well spent by instituting these reforms.

## **XI. Conclusion**

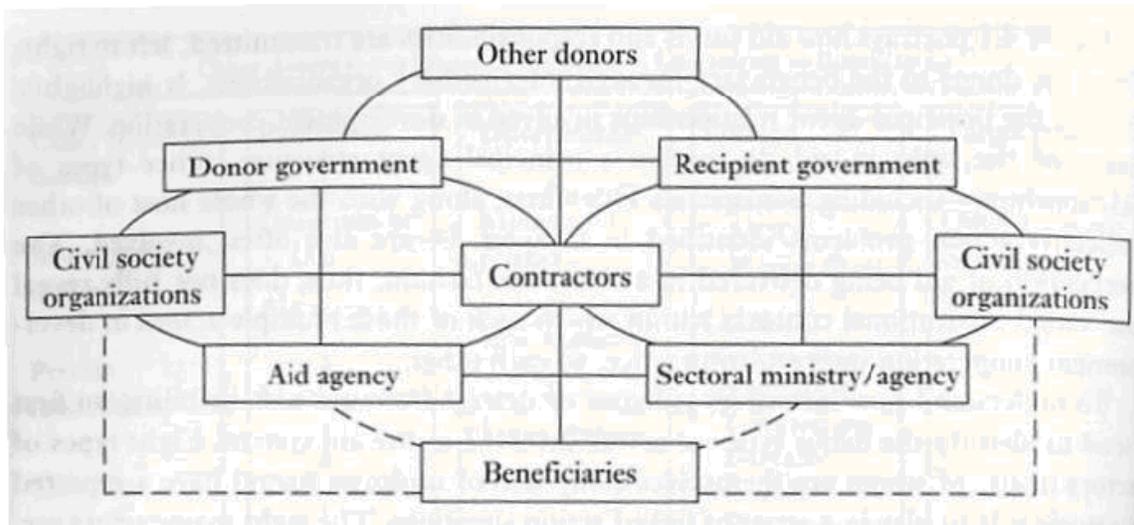
While contractors can potentially be useful in implementing development projects, the current system is riddled with inefficiency. Contractors' primary potential benefit is their ability to help mitigate the Samaritan's Dilemma by decreasing information asymmetry and ensuring that all sides are held accountable for their role in the development project. Yet through placing too much faith in these contractors, USAID has allowed the system to become distorted, such that the contractors now need greater checks on their power.

In particular, the mission of USAID has been derailed by two essentially political forces which undermine the goals of development. Buy American rules encourage collusion, discourage sustainability, and communicate a message of paternalism rather than partnership. Meanwhile the excessive reliance on outsourcing has resulted in staff shortages and a reduction of technical capacity which have seriously undermined the ability of USAID to gather information on its projects and fairly evaluate contractors. These two forces even contradict each other, as the "Buy American" move excludes competition and thus undermines the efficiency that privatization is supposed to provide. As a result, USAID contracts have become monopolized by a small number of American

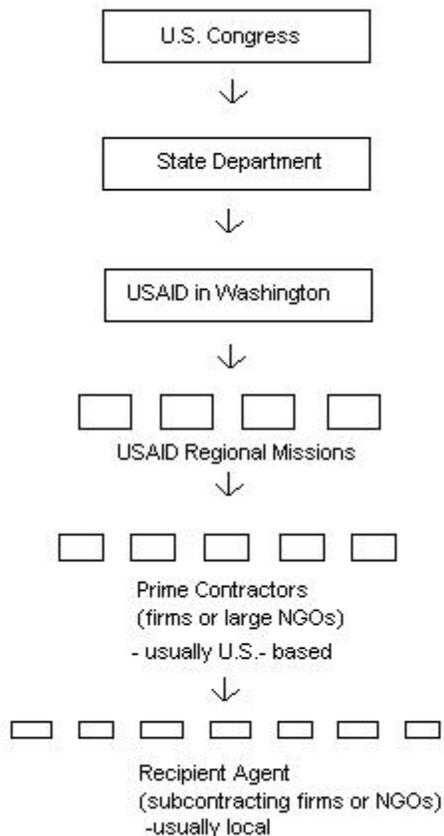
firms who continue to receive bids regardless of how poorly they perform and USAID has become increasingly isolated from the development projects it is supposed to oversee.

To remedy these problems, we must revisit the rationale for privatization and put in safeguards to ensure that all parties are held accountable for their work. This would involve hiring more contracting staff and technical experts. Also, In the spirit of free competition and the desire to generate sustainability, more locals should be hired as contractors, RAs, and as direct hire staff at overseas missions. Only once the agency attunes to the economic and political dynamics of the twenty-first century can its development projects achieve lasting success.

## Appendix



**Figure 1:** The interactions of contractors in a typical development agency (Gibson et. Al.2005:p.64)



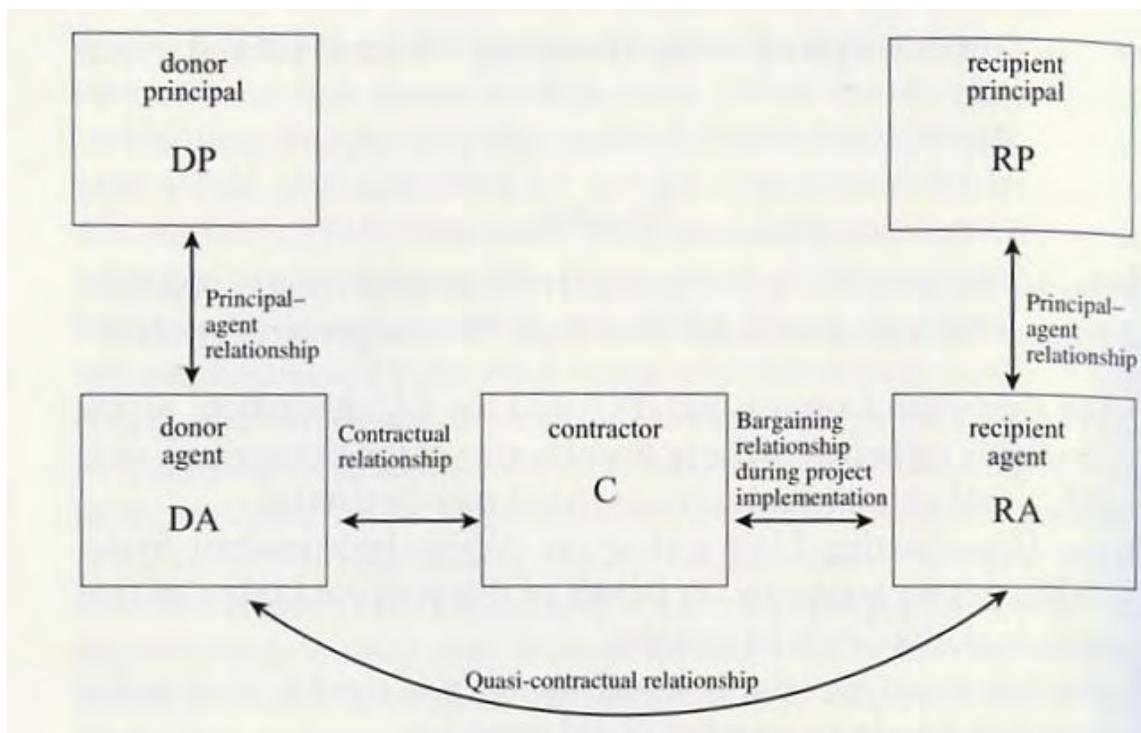
**Figure 2:** The flow of United States foreign aid through USAID

The purpose of this explanation is to demonstrate the different channels by which the funding needs to pass in a fiscal year. However, it is worth stressing how crude this illustration is. For instance:

1. The U.S. President has direct authority over the State Department- congress merely provides the funding.
2. Much of the actual awarding of contracts is done in Washington while the missions often act in a less direct oversight role
3. Subcontractors are sometimes based in Washington as well.

	Recipient agent works hard	Recipient agent does not work hard
Donor agency does not give	2,2 I	1,1 II
Donor agency gives	4,3 III	3,4 IV

**Figure 3:** Samaritan’s Dilemma charted as a game. In the event a donor does not give, the recipient agent has an incentive to work hard. However, if a donor gives, the recipient agent is motivated to not work hard. Since a donor has an incentive to give regardless of RA behavior, scenario IV is the most likely outcome. (Buchanan 1997)



**Figure 4:** The contractual relationships of an aid agency (Murell 1999:p.76). Note that I refer to the recipient principal (the population which eventually receives aid) simply as “recipients.” Also, in the case of USAID, the donor principal is the U.S. Congress.

USAID Contracts Summary Statistics, N=116

PERFORMANCE OUTCOME CRITERIA	FIXED PRICE* N = 33			COST PLUS N = 78			INCENTIVE N = 5		
	Mean Score	Stand. Div.	Min/Max	Mean Score	Stand Div	Min/Max	Mean Score	Stand Div	Min/Max
QUALITY	3.652	.643	3.0/5.0	3.229	.846	1.0/5.0	3.800	.837	3.0/5.0
COST	3.250	.458	2.5/4.0	3.229	.837	1.0/5.0	3.800	1.30	2.0/5.0
ON-TIME	3.333	.854	2.0/5.0	3.004	.697	1.0/5.0	3.400	1.14	2.0/4.0
USAID SATISFACTION	3.712	.673	3.0/5.0	3.385	.702	2.0/5.0	4.200	.447	4.0/5.0
LDC SATISFACTION	3.500	.635	2.5/5.0	3.356	.704	2.0/5.0	3.800	.447	3.0/4.0
Average Performance	3.489	.472	2.6/4.6	3.282	.572	1.8/4.8	3.800	.678	3.0/4.6

\* Under fixed price (1) there are only 8 contracts. Other types of contracts: time and materials (5) there are 2 and under ID/IQ or indefinite quantity contract (6) there are 4. Both of these contracts are similar to fixed-price, which is why they have been collapsed under (1).

Source: USAID, Office of Procurement

Figure 5: Results of a survey indicating job satisfaction according to different types of contractual arrangements (Berrios 2000:p.114)



Figure 6: USAID logo components as required for use by contractors (USAID 2007)

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