Center for American Progress

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Is Local Spending Better?

The Controversy over USAID Procurement Reform

By Casey Dunning November 2013

Introduction and summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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