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Hearing: “Modernizing International Development Assistance:
Opportunities and Challenges”

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Chairman Castro, Ranking Member Malliotakis, and Members of the Committee,

Thank you for giving me the opportunity to testify at today's hearing. My name is Prashant Yadav. I am a Senior Fellow at the Center for Global Development, an Affiliate Professor at INSEAD, and a Lecturer at Harvard Medical School. My comments draw on my background as a researcher studying international supply chains, global health, and economic development, and my experience working with nonprofits, for-profit social enterprises, and public-private enterprises, as a board member, board chair, or advisor.

The United States has already come a long way in retooling its policy instruments and apparatus to be more effective in achieving global development objectives. However, the pace of change in the market ecosystems in recipient countries, especially in the local entrepreneurial ecosystem, is much faster. Creating development assistance structures that can flexibly adapt to keep pace with changing dynamics in the recipient countries has been an aspirational goal with many failed attempts. One persistent challenge is that the strategy and operational models of development assistance employed by US agencies are driven more by transaction costs, fiduciary risks, management span of control, and agency staffing—and less by what can drive development impact most effectively. While it is extremely important to mitigate any fiduciary risks in US development spending, we cannot afford to ignore the risk of underperformance in achieving development outcomes. Improving effectiveness will require many operational improvements across US development agencies—in approaching partnerships, contracting models, and agency staffing.

There is an emerging consensus that achieving US international development goals cannot be accomplished merely through solutions developed in Washington and scaled through large international implementing partners. Attaining many of these development goals will require creating new products and services or significantly adapting existing ones. Such functions can be carried out more effectively by local social enterprises—local entrepreneurs who solve social sector problems through a combination of business logic, new technology, and rapid customer feedback. They are nimble and agile in learning what their customers/beneficiaries need, understanding their pain points, and quickly addressing them. In some instances, they are also

better at leveraging underutilized labor, capital, and fixed assets in the local economy, making them more cost effective. Let me illustrate this with two examples of social enterprises that have benefited from modest but novel forms of US support.

USAID programs have tried to improve access to medicines and health products for patients and beneficiaries who, for reasons of convenience, obtain these products from private retail pharmacies instead of government clinics. These efforts have focused on providing capacity-building support and technical solutions to retail pharmacies but have yielded limited sustained benefits. mPharma is a for-profit social enterprise that now operates in Ghana, Nigeria, Kenya, and Zambia. Through experimentation and faster customer feedback cycles, they realized that lack of working capital was likely a more significant barrier for retail pharmacies than the technical capacity of pharmacy staff. Their solution addressed this by providing health products on consignment to pharmacy shelves, coupled with user-friendly technology for inventory management, ordering, and payment. In addition to making medicines more available across retail pharmacies, the company has also significantly increased revenue and profitability for pharmacy owners. mPharma has private capital from local and global sources and has received modest loan guarantee financing from the US International Development Finance Corporation (DFC).

Social enterprises also can change system-wide norms and create faster uptake of new and productivity-enhancing technology. USAID implementing partners have tried to introduce electronic stock and inventory management systems into government clinics for over two decades now, but with limited success. A company called Maisha Meds provides point-of-sale ordering and stock management software to private retail pharmacies in Kenya and other countries in East Africa. As an increasing number of private pharmacies in Kisumu county Kenya adopted Maisha Meds software, its technology achieved greater social diffusion. Government clinics in the region voiced interest in similar software and approached Maisha Meds. To date, over 105 government clinics in Kisumu county in Kenya now use the software, and more 200 others in neighboring counties plan to do the same. Maisha Meds' Point-of-Sale Digital Platform has received funding from USAID Development Innovation Ventures (DIV). The company's experience demonstrates the potential of social enterprises not just in introducing

new technology but also in acting as powerful agents for the diffusion of productivity-enhancing technology, sometimes even outside their direct target customer segments.

These two examples underscore how deploying modest grant and loan financing to support evidence-based local interventions can be a cost-effective way to achieve critical US development goals and simultaneously advance the localization agenda of our development agencies. There seems to be strong momentum behind such social enterprise-led models of development, but the examples are one-offs rather than standard mainstream practice in our development assistance portfolio (further, they are an extremely small share of our overall development assistance budget).

Growing the use of development partnerships involving local social enterprises and local nonprofits requires understanding the barriers within agencies to expanding such programming and making smart and thoughtful choices about policy instruments. I have three concrete recommendations for making this approach more widespread across our development assistance architecture.

Enhanced organizational capacity within our development agencies

First and foremost, US development agencies need adequate organizational capacity to work with local social enterprises and local nonprofits. Having been involved in making grants and managing development projects in a private philanthropy myself, I recognize the challenge involved in embedding small innovative solutions into large-scale development programming. Each project or grant award has fixed costs of design, negotiation, and implementation, and these costs are not linear in the size of the contract. In other words, a smaller project doesn't mean less effort for staff managing the contract award. An investment officer or a contracting officer has limited bandwidth, making it infeasible to process dozens of small awards to local organizations and manage and monitor them effectively. We need additional resourcing for US development agencies to recruit staff with the right expertise to manage grant portfolios involving new types of local partners, such as local social enterprises. This would include creating new field staff positions within recipient countries with such expertise.

More traditional recipients of US development assistance have created robust and well-developed systems to ensure compliance with the US federal regulations, guidelines, and directives for contract awards. New social enterprises of the type described earlier generally lack such systems. Focusing on equipping the local social enterprises with systems and capacity to comply with US federal awards risks shifting their focus away from the model of fast beneficiary feedback and accompanying change (which is their key source of advantage) towards meeting the accountability demands of international donors. Asking local organizations to learn how to pursue USAID contracts through online courses is not where we want them to focus their time, effort, and entrepreneurial energy. Instead, we need to design a contracting approach where smaller nontraditional recipients can receive significant US development assistance funding while using the contracting and compliance systems of existing large implementers. This should not amount to just [small “signaling” subcontracts](#), but instead emphasize changing the role of large traditional implementers to become aggregators of local social enterprises and nonprofits, and carry out the compliance and management function for them.

Having faster access to actionable information about the landscape of social enterprises in a given country, including their suitability, strengths, and weaknesses for achieving a given development objective, can also reduce the time required for development agency staff to identify new partners. Such information must be drawn from a variety of sources, such as primary interviews, and subject with targeted analysis to understand program suitability. Sector bureaus and offices within USAID, DFC, and other development agencies can create a centralized system to collect this information and provide it to program design teams, which will ultimately save time spent on opportunity scouting and analysis. As an example, Investing in Innovation (i3) is pan-African initiative I am involved with which first systematically analyses the landscape of healthcare supply chain social enterprises, and then supports 60 promising ones with small grants & access to markets support.

Multilateral engagement on direct funding to local actors, including social enterprises

To succeed in advancing greater local actor participation, whether social enterprises or nonprofits, it's imperative that multilateral development organizations also prioritize this

approach, making it a more mainstream practice. Some multilateral organizations boast specialized staff with skillsets and experience contracting smaller local nonprofits and social enterprises. In such cases, a partnership centered on this agenda can be a means of addressing workforce limitations, both bandwidth and expertise constraints, within US bilateral development agencies. But in most cases, multilateral agencies also have limited support structures for such projects.

The United States should champion accountability systems and incentives for multilateral agencies to support more direct funding of local nonprofits and social enterprises. In some instances, these could include establishing explicit indicators in US funding to multilaterals, which would require reporting on partnership quality, partnership diversity, and share of grants to local nonprofits and social enterprises.

A closed-loop system from evidence to scale with multiple forms of financing

To take full advantage of the opportunities afforded by social enterprises, the US needs to develop better pathways of support across the full project cycle—from an initial round of grant funding for experimentation to systematic evidence generation. And, if evidence demonstrates success at scale, offering a menu of financing instruments, including larger grants, equity, concessional loans, and purchase commitments.

USAID has [sought](#) to improve the [use of evidence](#) in program design, but the evidence is being used [primarily](#) to inform what types of interventions to prioritize. Interventions are complex, and often, local human factors and political economy matter as much as the technoeconomic effects. What is lacking, frequently, is the ability to adapt programs in real-time based on real-world observation—including data at the most granular level possible.

DIV is an excellent [example](#) of providing flexible grants to test new ideas, focusing on rigorous evidence, and providing grant funding to scale solutions that meet the criterion of success. While some of the organizations that graduate from DIV funding receive follow-on funding from USAID missions, the proportion remains small. A better, multi-agency funnel or pipeline structure is needed, in which an expanded DIV portfolio creates multiple opportunities for local nonprofits and social enterprises to learn and experiment. Graduates would then be teed up to

compete for USAID mission funding, and where eligible and appropriate, positioned to be considered for concessional private capital from DFC. This would require [increasing DFC's risk appetite](#) as some such deals would not fit the constructs of the more traditional DFC portfolio.

In summary, it will take meaningful commitment on the part of US development agencies—with the support of Capitol Hill—to enable systems change that will allow local nonprofits and social enterprises to obtain greater direct US international development funding. But to truly modernize US development assistance architecture, creating the partnership, contracting, and management systems that can keep pace with the evolving landscape of social enterprises and local nonprofits—who are delivering development outcomes across many countries in a sustainable manner—must be an urgent priority. My recommendations offer a starting point for tackling this critical goal.

Thank you for your continued support in making US development assistance more effective and for the opportunity to appear before you today. I welcome any questions.