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FINCA International

Perspective on USAID Contracting Mechanisms
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USAID's indefinite quantity contracts and other large-scale contracting mechanisms were designed to make the country's bi-lateral assistance more efficient, resulting in more and better delivery of development aid to the world's poor. As an implementing partner on several of these awards, FINCA International thinks that the benefits of multiple layers of contracted assistance rarely materialize. In FINCA's experience prime contractors (a) pass very little funding to their implementing partners, (b) greatly increase the cost to the taxpayer through 'reselling' the industry's technical expertise at high mark ups, and/or (c) provide unclear instructions to the organization actually implementing the program on the ground regarding goals or compliance procedures. FINCA's experiences with direct awards from USAID missions have proven to be much more successful.

With respect to point A, as a specialized organization, FINCA is unable to compete as a prime for these multi-disciplinary awards. As a result, FINCA (like many other specialized agencies) joins a larger team as a sub-contractor, helping the prime demonstrate to USAID that they have assembled a team of implementing partners with the skill and expertise to deliver. However, after the prime wins the award, FINCA often finds that the primes have little interest in utilizing the mechanism to fund sub-contractor activities. While USAID generally makes multi-million dollar awards, FINCA's sub-awards rarely exceed \$100,000.

There is little transparency within consortia and very little information is readily available from USAID, so it is difficult for FINCA to state unequivocally how much money prime contractors receive, how much they spend on their own overhead and profit, and how much they pass to sub-contractors, but FINCA's experience includes:

- **Haiti:** In 2006, USAID Haiti issued a task order under the AMAP MF IQC to support Haiti's microfinance, small and medium enterprise sector. DAI won the award in the amount of \$6-8 million. DAI sub-contracted a total of \$1.2 million. FINCA received \$85,000.
- **Uganda:** In 2002, FINCA signed a sub-award with Chemonics as part of the USAID-funded SPEED project to facilitate the transformation of FINCA Uganda. While the sub-award to FINCA was for \$600,000, the procurement process was so restrictive, that FINCA was only able to receive \$325,000. FINCA believes that the total award to Chemonics was \$30 million.
- **Armenia / Georgia / Mexico / Ecuador:** There are certainly more examples, but over the last six to eight years, Chemonics and DAI received sizable awards to support micro-enterprise in these markets. Though running the largest or one of the largest MFIs in each of these countries, FINCA International has received no sub-award funding through these mechanisms.

As a result of their failure to secure funding through the IQC system, a coalition of practitioners (FINCA among them) raised concerns about the system to USAID. USAID replied that given limited staffing they could not manage contracts with individual microfinance institutions (MFIs) and suggested that the coalition organize itself and find a leader to bid against the big contractors. In preparing to bid on the Leaders with Associates Award (LWA), the industry followed USAID's advice, selecting AED to serve as the prime since none of the MFIs had the capacity to manage such a large contract. The ARIES funding for Afghanistan was channeled through the LWA mechanism. Unfortunately, although FINCA has received significant funding for its program in Afghanistan, AED's limited industry expertise created another reporting layer between USAID and the MFIs while providing little technical value to the MFIs or USAID when things got tough in Afghanistan.

With respect to point B, senior FINCA staff who have been hired away by large consulting firms to provide technical assistance to FINCA and other MFIs at a much higher cost to the US Government include Phil Broughton (hired by Chemonics but who has returned to FINCA because of its more productive environment), Mark Rostal (hired by DAI) and Adam Blanco (also hired by DAI). At best, this practice duplicates the talent required for a project (FINCA must replace these employees). At worst, as contractors lose or reassign these individuals a lack of continuity constantly hinders forward progress.

In addition, much of the technical assistance provided by contractors – despite the quality of the people they have hired – has been overly broad and not valuable to the organization's needs.

With respect to point C, FINCA has on numerous occasions found it difficult to obtain instructions directly from the local Mission or from AID in Washington, and dialogue with the prime contractor has in many cases been conspicuously influenced by self-interest or based on lack of understanding or attention to the goals/outcomes sought by USAID. We believe that this process is exacerbated by a proclivity to use the grant to hire as many consultants as possible, resulting in a short term outlook and a diminution of funds available to achieve the desired outcomes. FINCA believes that direct dialogue and reporting with AID can ensure a common understanding of goals and an effective resolution of issues that arise in the course of a project.

When contracting directly with USAID missions, FINCA has found substantially more success. In 2004, FINCA received an award for \$1.2 million from the USAID mission in Kinshasa to launch a new program in the DR Congo. FINCA earlier had received direct awards from USAID missions for programs in Kyrgyzstan (\$6.2 million) and Azerbaijan (\$4 million). These programs are today among FINCA's most successful affiliates. Together they account for nearly 210,000 clients and a \$120 million loan portfolio.

Analysis/Conclusion

The contractors that win the bulk of the awards from USAID have very different success criteria than organizations such as FINCA. While FINCA measures success in terms of the ability to deliver sustainable financial services that have a long-term impact on development, most contractors are project focused, seeking to demonstrate short-term results.

Oversight has often been inconsistent or lacking in understanding of the programs. FINCA is committed to full compliance with the letter and spirit of regulations. Intervention by prime contractors with no on-the-ground involvement is often ineffective or even counterproductive.

In FINCA's experience, contractors fail to engage with organizations like FINCA and, often impede our efforts (as well as do a disservice to taxpayers) by attempting to cure their lack of expertise by hiring away FINCA's talent to manage the new contracts and provide technical assistance.

FINCA and many other MFIs have decades of experience working with USAID, managing contracts and producing results. FINCA does not need expensive consultants to help account for money and write reports. Ultimately, the US Government would be better served by making direct contracting relationships between organizations such as FINCA and USAID the rule, rather than the exception.