Unlocking innovation

for 21st century challenges

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Reimagine what's possible

Over the past 60 years, international assistance to low- and middle-income countries has reduced maternal and child mortality; saved millions from diseases like AIDS, tuberculosis, and malaria; and staved off famine in many parts of the world.

But as time has gone by, systems born in the 1960s have become increasingly ill-equipped to function in the 21st century. Rather than incentivize results, they tend to emphasize compliance. Global development agencies largely shut out innovators and move at a glacial pace when we need them to be agile. If we change the rules of how our public institutions operate, we'll improve impact.

The missions of global development agencies around the world could not be more essential as we face conflict, climate change, and global pandemics. This white paper identifies some of the barriers that keep innovative organizations from working with public funders and prevent dollars from getting the results we want. It recommends how we can change systems to crowd-in more innovation to achieve the Sustainable Development Goals (SDGs). The status quo is a no go. We need to reimagine what's possible.

Unlock Aid commissioned Starling Strategy in 2021 to interview more than 60 pacesetting organizations spanning the globe to identify the challenges they experience when working with global development funders. While our results largely point to challenges they experience when working with USAID, we include commentary on other public funders such as the UK's Foreign, Commonwealth, and Development Office (FCDO), the World Bank, Global Fund, and Gavi.

International assistance awards create significant barriers for new partners

As billions of dollars are annually allocated for development, a relatively small number of people who work at development agencies are under enormous pressure to move money quickly. The most efficient way is via mega awards in the tens and sometimes hundreds of millions of dollars. Just applying for such awards can cost a firm $200,000 in staffing and compliance systems and the extended timelines exclude all but the largest organizations. Donors would like to increase their use of smaller, easier-to-manage awards that are awarded directly to innovators to scale proven solutions. But many of the aid sector's structural features stand in the way of realizing this vision.

The existing structure disincentivizes smaller, more nimble organizations from trying to access public funding

A small group of contractors and big international NGOs with the requisite systems are the only players that can absorb the mega awards and therefore control which smaller organizations are brought in and to what extent. Non-traditional partners have few direct ways of working with the largest international development funders. This is one of the brick walls that keep game-changing innovation from international development grants and contracts and deters the kind of collaboration that would include expansive use of scalable, innovative approaches.

Many donors do not prioritize investments in technology and other innovations needed to solve problems

Funding specifically for technology and technology-enabled innovations is wholly insufficient and is too often buried in larger solicitations. Treating them as small components rather than game-changing innovations inhibits systems-level impact. Additionally, donors in a position to fund potentially transformative innovation tend to have a low tolerance for risk and rely on payment structures that are at odds with the business models of innovative, technology-enabled organizations. Nor do donors invest enough in research and development (R&D) or use tools like Advanced Market Commitments to stimulate the kind of private and public sector investment needed to source solutions to achieve the SDGs. The technology curve is hard enough to navigate, but many donors make it worse by insisting on using funding models that run afoul of technology business models, thus squashing the marketplace for new solutions.

Solutions that invite innovation

The status quo is not cutting it. A 2019 USAID Inspector General report found that 43 percent of USAID's awards achieved, on average, just half of their intended results. Many countries are going backwards on the SDGs.

To address humanity's greatest needs, the global community needs to crowd-in new innovations and public and private sector investment, and shift the status quo. But to realize this potential, many donors will need big changes in their thinking and approach: changing policies, business culture and norms, and challenging tradition at old institutions will make it easier for them to work with the most innovative organizations in the world, especially with the local innovators that are best positioned to achieve the SDGs.

Note: While much of this paper addresses technology innovators' challenges, innovators can take all shapes, from human rights defenders that use novel approaches to put sunshine on corruption and abuse, to community health worker programs that put impact ahead of inputs. Many of the barriers that keep technology innovators from working in global development keep other innovative players out, too.

What's needed

1. Faster release of funds and tiered application and compliance requirements depending on the size of the award. It should take less effort to apply for a $2 million award than a $20 million one
2. Donor intervention to improve prime-sub contracting dynamics
3. Budgets not just for pilots, but for scale-ups, as well as more funding for R&D for big "moonshot" ideas
4. Overhauled contracting rules and greater use of fixed-price awards that are easier to manage and can pay for results
5. Front Office-based "de-sludge" units to lead major internal reform initiatives

Introduction

Over the past 60 years, international assistance to low- and middle-income countries has increased significantly. These investments have been used to drive down maternal and child mortality; save millions from diseases like AIDS, tuberculosis, and malaria; and stave off famine in many parts of the world. And yet, enormous challenges remain.

As more money has been poured into international assistance, both awards and compliance have been supersized. The result is that grants and contracts today do not incentivize new and more innovative ways of solving problems and are too big for all but the largest international development firms to manage.

As the challenges become bigger, and the need for more innovative solutions becomes greater, a stubbornly complex procurement process means foreign assistance remains mired in the old way of doing things. The system needs changes to incentivize visionaries and innovators to bring their ideas, expertise, technology and other new approaches to the work. It needs the kind of entrepreneurship and vision that gets packages delivered across the country overnight, cars without combustion engines, and hamburgers without meat.

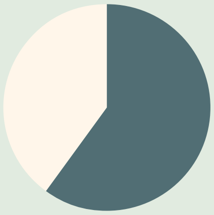
Top brass at the world's largest donor agencies have signaled a desire to direct more of their work to more innovative and local organizations, but bureaucratic red tape and fixed budget cycles often stand in the way. In fact, from 2016 to 2020, direct funding by international donors to local and national groups declined from 3.5 percent to 2.1 percent. From 2011 to 2018, the number of USAID's new partners shrunk from 761 to 226.

2017

60%

of USAID's total award money went to just

25 firms

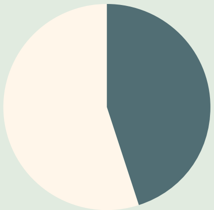


2012 – 2017

45%

of the total value of the UK's Foreign, Commonwealth, and Development Office (FCDO, formerly DFID) went to just

6 firms



To understand the challenges that keep innovators from bringing their ideas and solutions to international development, we interviewed leaders at more than 60 pacesetting organizations spanning the globe (approximately 52 percent head-quartered in high-income countries and 48 percent in low- and middle-income countries). Many of them have decided that they will no longer pursue international development contracts funded by large public institutions (e.g. USAID, FCDO, World Bank, etc.) and many others are considering leaving international development completely. Among 37 firms that participated in a voluntary survey, thirteen (or 35 percent) said they do not do any business with USAID although they may work with private philanthropies or other funders. Twenty out of 24 firms (approximately 83 percent) said that, over the past five years, they "often" or "sometimes" avoided "good fit" business opportunities to work with USAID, including as a prime or subcontractor.

We also interviewed sector experts at think tanks, as well as representatives of bilateral donors like USAID and the Dutch Ministry of Foreign Affairs, multilateral donors like the World Bank and Global Fund, and philanthropic foundations.

What we found

1. **International assistance awards across the board are too complex, take too long, require too much reporting, and are bad at attracting innovation, creating significant barriers for nearly every organization that we spoke to**

2. **The existing structure depends too much on the large, known government contractors and international NGOs, which disincentivizes both innovation from them and disruption by smaller, more nimble organizations**

3. **Despite pledges by donors to innovate, many of these institutions do not prioritize taking on challenging internal procurement reforms, nor do they make sufficient investments in innovative approaches to solving problems**

International development grants and contracts are unnecessarily complex

Donor awards are too big for all but legacy players

The Congressional allocation to USAID, the largest bilateral aid donor in the world, now stands at more than $20 billion annually. A relatively small number of contracting officers are under enormous pressure to move huge amounts of taxpayers' money before the end of every fiscal year. The most efficient way for these officers to move money quickly is via mega-awards valued in the tens of millions, hundreds of millions, and even occasionally billions of dollars every year. One USAID official told us, "It takes me as much time to write a $5 million award as it does a $50 million one."

It is not just USAID awards that are massive. The trend is true across a number of other US government agencies, bilateral donors, foundations, and multilateral organizations. The World Bank nearly doubled its average project size from $87 million in 2005-2007 to $157 million in 2009-2010.

But as award sizes increase significantly, only a handful of large contractors and international NGOs have the capabilities (and financial management systems) to absorb them.

The application process is too complex

Even when donors have designed smaller awards to encourage partnership with for-profit and not-for-profit small- and medium-sized enterprises (SMEs), the human resource and financial cost to apply has tended to be extremely expensive and comes without any guarantee of funding.

Firms said that agencies affiliated with the US government required among the most significant investments just to apply. Multiple organizations reported that they invested more than $200,000 just to compete for and comply with a traditional "cost-plus" USAID award.

Example costs just to apply for and comply with a single "cost-plus" USAID contract

1. Audits of multiple years of financial statements, per USAID proposal requirements ($40,000 to $50,000)
2. Proposal writers, business development teams, and budget staff with specialized expertise writing USAID-compliant proposals ($30,000 to $50,000 per proposal)
3. Establishment of USAID-compliant financial management systems and policies ($50,000 to $75,000 in annual software licenses and accounting fees)
4. Establishment of a Negotiated Indirect Cost Rate Agreement (NICRA) with the federal government ($30,000 to $40,000 in consultant fees and staff time)

In addition, firms reported that complying with the US government's minimum application requirements takes considerable time. One organization told us that it took more than one year to get approved for what's called a "Negotiated Indirect Cost Agreement," or NICRA, even while working with a consultant who specializes in NICRA issues.

These obstacles come on top of the very long timelines that USAID itself takes to move from a call for proposals to ultimately disbursing funds for awarded work, a process that routinely takes more than one year. Most smaller organizations cannot afford such long, protracted procurement schedules.

Non-US firms face even more barriers because they are often subject to additional requirements such having a Non-US Organization Pre-Award Survey (NUPAS) executed in advance of receiving a grant.

Firms also said that long timelines of multilateral donors like Gavi, the Global Fund, and multilateral banks are impediments to working in global development. One executive said that it took his firm more than nine months to negotiate an agreement with Gavi because the proposed contract was caught up in an "endless review" by Gavi's attorneys, risk management teams, and monitoring and evaluation committees. The contract also needed multiple sign-offs by local government officials at various stages of negotiations. By the time Gavi headquarters finally approved the agreement, the senior officials inside the local health ministry who had initially championed the project were replaced, so the firm had to restart its country-level negotiations (at significant cost), effectively erasing the progress it made over a year to build local political support for the project.

> *"If the system doesn't change, we're all in trouble...The only groups that can sustain a business model [in global development] are the big contractors."*
>
> –Indian innovator, a 10+ year partner of Bill an Melinda Gates Foundation, USAID, & UNDP

Processes that hinder results

An overdependence on what are known as "cost-plus," "cost-reimbursable," and other funding models that pay for time and materials has led many donors over the years to an award structure that favors compliance over performance. But regulations set up to prevent theft or squandering of funds have become barriers to meaningful interventions. What seem in planning to be prudent approvals and gut checks have become in reality excessively complex processes that impede the actual work of development awards.

Firms said that USAID and other US government agency funders had among the most onerous requirements and the driving principle of their awards is compliance over performance. While these rules were written decades ago with the best intentions (to prevent fraud and abuse), many of them are now outdated and impede the ability of organizations to drive impact quickly.

Firms told us they typically spend between 20-40 percent of their time on activities associated with award compliance. Multiple organizations told us they had to hire additional staff just to manage the administrative components of US government awards.

Not-for-profit and for-profit firms also reported that these rules significantly increase their cost of doing business. For example, one CEO said that, because organizations must use multi-level approvals systems to track all purchases associated with US government-funded projects, “We have to spend $50,000 a year just to use clunky software that exists for no other reason than to comply with rules.”

Executives said that donors like the Dutch Ministry of Foreign Affairs, Children’s Investment Fund Foundation (CIFF), and various other large philanthropic foundations had fewer reporting requirements, but did not experience higher levels of fraud or malfeasance. The Global Fund retains "Local Fund Agents" to monitor in-country projects to prevent against fraud, waste, and abuse, for example. According to these firms, many of those donor-funded projects also consistently delivered results that were superior to US government-funded initiatives. Moving to pay-for-results or pay-for-milestones models are also effective ways to incentivize good performance and also prevent fraud, waste, and abuse because the government only pays if the objective is achieved.

Multiple organizations said they wished that US government agencies replicated these more progressive donors’ policies on award reporting and compliance.[1]

Past and present officials inside of major donors like USAID told us that despite the red tape, forward-thinking contracting officers and lawyers are often still able to work within the existing rules to design innovative and results-oriented awards. The problem is that there tend to be too few officers who know the rules inside and out. Many of these officials recommended that agencies like USAID set up Front Office units staffed by forward-thinking officers who can lead internal reform efforts and serve as a sounding board for other agency staff who want to try something new or innovative.

1 Many philanthropies present their own challenges, however, firms said. Few offer fees, or the potential to generate a profit, for example, which disincentives many organizations with innovative solutions from working with these funders. Not enough offer “unrestricted” funding, others pointed out.

The system is too dependent on too few organizations

Contract and grant design makes it extremely difficult for non-legacy players to win awards

Given that being a prime contractor is just not possible for most non-legacy partners, smaller innovators are usually relegated to subawards. This creates a unique set of challenges to working with global development funders, in part, because the innovator is subject to timelines set and implemented by their primes – not the donor or the country.

Subcontracting also comes with a significant need for upfront capital. Up to ten large primes may invite a smaller organization to join their consortia. Since smaller organizations have no way of knowing which large prime will ultimately win the award, many opt to join the proposals of as many of these larger firms as possible. But each proposal comes with a compliance burden and budget negotiations. However, once the award is announced, the donor agency signs the contractual agreement with the prime only. There is no promise that work, and therefore funding, will flow to the subpartners. As a result, a smaller organization included in a winning proposal needs to do *another* round of business development (often including with the in-country partners like local government ministries) to ensure they are included in the final work plan.

But it's often the case that the primes cut the subpartners out of the deal, a risk that discourages many innovators from pursuing public funding in the first place.[2] One CEO said that, in his experience, many big firms include lots of small innovators in their proposed consortia as "bid candy" for donors who will evaluate the proposals. But as soon as the contract or grant is awarded, the incentive structure changes completely. Fourteen out of 19 firms (or nearly 74 percent) reported that, over the last five years, they were "often," "very often," or "always" awarded less by larger prime contractors than what they were promised at the teaming and proposal stage.

Because the most innovative organizations that work in development are typically small or medium-sized organizations, this business practice is one of the brick walls that keep game-changing innovation from international development awards.

2 Many factors may cause subs to be cut from a contract, including post-award scope changes, post-award budget reductions, instruction by client to exclude certain partners, or instruction by a donor to include certain partners. However, subcontractors are often provided little to no transparency into why this happens.

Poor prime-sub contracting behavior can continue without checks because 19 out of 23 firms (or approximately 83 percent) surveyed felt there would be no recourse, so would not report being cut out of awards to the donor. International development is a relatively small community, and the primes ultimately control the money that goes to the smaller organizations. Firms said that they either feared reprisals or they lacked the staff time and capacity to lodge a formal complaint.

One small business based in Kenya told us that they were recently invited to join a consortium and would be treated as a “major sub-partner” in exchange for signing an “exclusive” agreement. As a result, they provided very specific information about personality politics and the biggest opportunities to drive impact inside a relevant government ministry. This intelligence was vital to demonstrating the technical expertise needed to execute the project and no doubt contributed to a successful bid. But the smaller firm was eliminated from the proposal for what the prime contractor said were budgetary reasons. “There is nothing we can do when that happens. We have zero recourse,” the firm’s CEO told us.

While these kinds of contracting dynamics occur most frequently on US government-funded projects, especially on USAID initiatives, firms reported that similar dynamics also occur on World Bank, FCDO (formerly DFID), and occasionally on large foundation-funded work.

Many firms pointed out they have also had good experiences working with some larger partners – the sector is not monolithic – but they added it was too hard to know at the outset what the experience would be like, especially for those SMEs that do not have deep networks into the traditional development community or years of experience competing as a subpartner on tendered awards.

Limited transparency is also a barrier

For those organizations that still do decide to participate as a subpartner, their limited networks to legacy contractor networks was also cited as a barrier. When a donor publishes a tender for a large award, SMEs know that a small subset of organizations will likely put together consortia to submit a proposal. What they don't know is which companies or international NGOs will submit bids or who within those firms will lead the proposal process. Too much of getting listed on consortia proposals is based on "who you know."

Since so many of the larger legacy partners have thousands of employees, it can be difficult for SMEs that have not historically worked with them to know who to contact, problems that could be resolved if there were more transparency requirements, such as if donors required that larger partners publicly register their intent to bid for an award, along with an appropriate point of contact.

Even work targeted for smaller firms often goes to larger ones

Many donors have created “local awards” and other specialized programs to enable a wider selection of organizations to compete. These are specifically designed to encourage a wider variety of partners: for example, more locally-based firms with a vested interest in the results of the work. And yet, firm leaders told us that many of the world’s largest government contractors and international NGOs have set up smaller firms or foreign versions of themselves and often compete for these programs against truly indigenous ones, effectively squeezing opportunities for the organizations these programs were initially designed to attract. These spin-offs are typically led or managed by the larger organization, governed by it, and have access to its human and financial capital including staff expertise in proposal writing and compliance.

The result is that money intended to increase the number and diversity of contractors and attract innovation does neither.

> *“If we don’t see changes soon, we’re out... We are so disenchanted with this sector. We are losing our ability to work in it.”*
>
> –Kenyan innovator, a 10+ year partner of BMGF, USAID, & FCDO

Firms noted some optimism about new initiatives at USAID like the New Partners Initiative, USAID Administrator Samantha Power's plan to direct more funding to "local" organizations, and experiments with co-creation, which put smaller partners and primes in front of USAID contracting officers at the stage of proposal development, but said it was too early to tell whether these initiatives will be successful. USAID has in the past also tasked large prime contractors and international NGOs with managing these new initiatives – and often put these larger partners in the position of choosing which smaller partners to invite to co-creation exercises – so most of the smaller organizations we spoke to said they were skeptical these initiatives would lead to long-lasting change.

Donor models not built to scale innovations, especially those that use technology

"Not only are donors making it impossible for private sector innovators to break into the space at any meaningful scale, aid models are disincentivizing the adoption of new technologies that can have a significant impact on development in favor of outdated models."

– Silicon Valley innovator, a 7+ year partner of Gavi, BMGF, and other funders

The development sector would benefit from the meaningful participation of innovators whose approach to development is significantly different from the approach that has been the norm for decades. Increasing the use of new and innovative technologies would have an outsized impact. But to attract technology solutions to global development challenges, one health technology executive told us, "Pretty much everything needs to change."

First, **funding for technology interventions is wholly insufficient**, nearly every firm told us. Multiple organizations said that donors are comfortable funding a pilot, but they are rarely reliable for the scale-up of the ones that prove successful (this is also true of non-technology innovations). However, when donors do agree to scale-ups, the funding takes so long to materialize (if at all) that small innovators get stuck in predictable "Valleys of Death" where they either need bear the costs themselves or leave the market (also true of non-technology innovations).

Second, **donors too often bury technology investments in larger solicitations**, treating them as small components rather than game-changing innovations. This inhibits systems-level impact.

Many scalable technologies could benefit multiple sectors, such as data analytics, artificial intelligence, alternative building materials, crop insurance, weather prediction, and hardware such as advanced sensors, drones, and medical technology. But because donors treat tech as a tool to support a specific project, donors routinely finance a proliferation of innovations, all operating at relatively small scale and in silos (often leading to pilot fatigue). Donors' current approach also prevents them from financing solutions that may be too expensive for any one specific project or donor, but would be affordable if they pooled their technology funding across programs or donors.

Treating technology as a secondary concern almost always means that tech firms are often project-managed by large contractors that do not understand their business models, design processes, or have insufficient advanced sciences or technology expertise and therefore set unrealistic and unfair expectations. For example, one organization said they expected to spend 18 months developing a working software solution for a government ministry, taking into account the need for regular user feedback and design iteration, but their prime gave them just four months because they waited to engage that firm until year four of a five-year contract.

Third, **donors that are in a position to fund potentially transformative technology innovation and "moonshots" tend to have a low tolerance for risk**. The firms we surveyed made the point that venture capital firms expect the vast majority of their investments to fail, yet continue to make big bets because the few that break through can change the world. They often don't expect their portfolio companies to turn a profit until their tenth year in business. Yet donors like USAID and UNICEF, which explicitly advertise funding for new and potentially groundbreaking innovations, rarely take chances on "moonshot" ideas or invest serious research and development resources.

While many donors have set up innovation units to test and scale new technologies and other game-changing innovations, these offices tend to have extremely limited resources. USAID's Development Innovation Ventures (DIV) unit returns a $17 social benefit for every $1 invested, for example, but its annual budget amounts to just 0.1 percent of USAID's overall spending.

By comparison, in the United States, the average R&D budget accounts for 4.4 percent across all industries, with some sectors investing more than 25 percent of their total revenue on R&D.

Donor innovation programs also tend not to be well-integrated with the rest of donor agencies, either, so that even if a new idea performs well at a pilot stage, it can rarely access additional agency resources to bring it to scale.

Nor do major donors tend to make routine use of "demand-pull" mechanisms like Advanced Market Commitments or innovation prizes to spur private and public sector R&D investments to achieve the SDGs, like the US Government did to incentivize the production of Covid-19 vaccines by promising to buy successful vaccine candidates. Such incentives could stimulate large outside public and private sector R&D in innovations related to off-the-grid energy, satellite monitoring for rainforest conversation, and new tuberculosis treatments, for example – and at little risk to the government because the government only funds what works.

Fourth, **SMEs also reported that donors too often try to define how firms should solve technology problems in the RFPs**, but this practice discourages many organizations from submitting proposals in the first place.

One executive explained:

> *"The donors put all the consultants in a room and create a giant checklist of democratically-collected needs for the [technology] project. This results in 'Frankenstein' RFPs for highly customized software that do everything under the sun. But the best technology solutions are typically already available off-the-shelf and just need to be adapted to the client's specific needs. Or, new solutions*

may need to be built, but it should be done in an iterative and user-centric way. Inputs should be defined by the users and these needs will change over time, so the donors should stop baking all the requirements into the RFP on day one."

Fifth, **many technology companies' business models are based on recouping their significant (often in the millions of dollars) R&D investments** via licensing fees or fixed-price contracts. However large international assistance funders historically do not pay for "repeatable expenses." They also often structure contracts using what are known as "cost-plus" or "cost-reimbursable" methods, meaning the donors will only pay for the number of hours a set number of people worked on a project. But as multiple technology firm executives pointed out, this is anathema to their business models, and effectively eliminates opportunities for technology companies to ever recoup their investments, which further discourages private sector technology innovators from working in global development.

Given that many hardware and software innovations can support many projects at once, technology companies can simultaneously support multiple countries without hiring new staff. For example, a software engineer can build a single application that can be used by anyone and anywhere, no matter whether the users of that software sit in Bangladesh, Rwanda, or Guatemala. However, cost-reimbursable rules stipulate that separate people must work on each project, so these regulations make it excessively complex (and in many cases, impossible) for technology or technology-enabled firms to legitimately account for who worked on which project. Using a cost-reimbursable model, who should pay for that software engineer's time? The donor for the project in Bangladesh? Or the one for Rwanda? Or Guatemala? Paying for licenses or fixed-price awards that paid against results delivered would be much more straightforward, executives said.

Firms told us that cost-reimbursable models can be advantageous in certain limited cases, for example to fund R&D (where you do need people working on a new problem), for scoping activities in anticipation of working on a larger contract, or to offset some of the non-technical financial costs and risks for SMEs that work in fragile environments. But cost-reimbursable methods of payment is a particularly bad model to scale technology interventions. Further, given the additional compliance headaches that come with working with cost-reimbursable methods, many firms said they would still prefer to structure R&D and scoping work using fixed-price awards where payment can be triggered upon delivery of agreed-upon milestones.

To scale technology innovations, in addition to using fixed-price awards, officials should also consider paying for licenses, firms said[4].Then, stop asking firms to calculate how they arrive at their final license cost because it won't be possible to generate an accurate number without looking at the years of investment it took to build the underlying software or hardware. Like the private sector, donors should be able to evaluate whether the price quoted in the proposal is worth the investment or not. “It’s not like if you wanted to use Word you’d ask Microsoft how many software engineers they plan on using for the project. No, Microsoft has already made investments to build Word and they make their money back by selling a license,” one firm executive pointed out.

Finally, international assistance has traditionally avoided purchasing from for- profit companies, even though private sector players often offer cutting-edge solutions, especially in the technology sector. As one SME executive explained, “Donors bemoan that private capital is soulless because it won’t invest in development (and innovators get shamed for having raised funding), but the reality is, there would be tons of money pouring into development if the donors would stop distorting the market... and create pathways for sustainable business models to succeed.”

Not-for-profit and for-profit SME executives also pointed out that donors have also resisted acquiring services or technology from firms that sell proprietary solutions. One firm told us that, for many donors, non-open-source solutions are seen as a red flag, even though many commercially-available, off-the-shelf

4 Paying a license fee is technically possible with some donor models, but not all.

solutions have already been tested, are globally compatible, and quickly implementable, meaning lower startup costs and faster results. When low-income governments say they want to use commercial software and the donors refuse, this signals to the country that “the donor knows better than you do,” one firm executive said.

Another added, “Both innovators and the donors need to acknowledge a mixed approach consisting of open source and commercial software is perfectly workable. The notion that everything must be open source is naive...It ignores not only innovative firms, but puts a reliance on projects that may not be adequately funded to scale, be secure, and offer the necessary support if it becomes popular. In the last 10 years, multiple times, major security flaws in software that affected half the Internet was free and open source. It was also maintained by teams sometimes as small as 2-3 people. Commercial software doesn’t have that issue... A hybrid approach that leverages best fit-for-purpose software, whether open source or commercial, can be the best approach.”

There are many excellent open-source solutions available – and donors should continue to fund global public goods and open source implementations when a country signals its desire to use them – but donors should stop applying a “one size fits all” approach and instead listen more to what countries want to use, firms said.

Solutions that invite innovation

"If the donors approach climate change the same way that they have approached global health, there's no way that the sector will be able to innovate at the speed that it needs to."

–Silicon Valley innovator, a 6+ year partner of BMGF, USAID & World Bank

Many donors' models are broken. The calcification of international assistance stymies attempts by donors and governments to get their arms around global warming, humanitarian crises, and other development challenges.

While a handful of private, philanthropic foundations have made it easier for small innovators and local organizations to work in global development, more and more public money is going to fewer and fewer large contractors and international NGOs. As a consequence, innovators are leaving global development. And many others choose to never enter in the first place.

The ability to apply new innovations to global challenges that have transformed the planet in just a few decades could have immense impact. But international assistance contracting models are incompatible with the way innovative organizations typically operate. In addition, for innovators that deploy technology solutions, the lag between proposal and implementation means that a selected technology intervention may be much less relevant by the time it is rolled out. Like mobile phones, what is innovative and novel in 2022 will likely be deprecated by 2026.

As former USAID Administrator Mark Green said in 2019, "There are literally trillions of dollars that could be mobilized for development if we learn to better leverage partnership, catalyze private-sector investments and amplify the efforts of foundations and non-profits."

But to realize this potential, many donors will need radical shifts in their thinking and approach:

1. **It should be easier for donors to write awards valued at $10 million or less than it is to write an award valued at $100 million or more. Donors should find new ways to create tiered requirements for firms to apply and comply with awards depending on the size of the award and find ways to release the funds faster**

2. **As long as global development agencies rely on large contractors to serve as its gatekeepers, donors need to do a better job of improving prime-sub contracting dyanamics. For example, funders could require more transparency – the winners of large grants and contracts should be required to publicly report both the percentage of the awards they promised to SMEs and what was actually dispersed. Donors should also recognize that aid models that rely on a handful of big contractors can distort local markets, discourage private sector investment, and crowd-out new players**

3. **Donors should budget not just for pilots, but also for scale-ups. Increase R&D funding and use tools like Advanced Market Commitments to spur outside private and public sector R&D investment to achieve the SDGs**

4. **Donors also need to overhaul their procurement and assistance policies to make it easier to work with technology-enabled organizations and other innovators. This means:**
   - Moving away from funding models that remunerate strictly on the basis of process and compliance (like cost-plus models)
   - Making greater use of fixed-price funding models that reward on the basis of milestones delivered
   - Increasing willingness to pay for "repeatable" expenses like licenses, in addition to existing investments in open-source solutions
   - Pooling different donor resources to pay for specific innovations that can benefit multiple sectors
   - Ending the practice of burying technology projects deep within other projects managed by larger prime contractors and international NGOs

5. **Donors should set up "de-sludge" units inside their Front Offices consisting of forward-thinking contacting officers and lawyers. These offices should lead initiatives to simplify grants and contracts**

The status quo is not cutting it. A 2019 USAID Inspector General report that surveyed three years of agency spending found that 43 percent of USAID's awards achieved, on average, just half of their intended results. Countries are not on track to achieve the SDGs. This has real-life consequences: global hunger is on the rise; millions still die every year from highly treatable and preventable diseases like measles, malaria, Aids, and tuberculosis; no country is on pace to meet their 2030 gender equality targets; and climate change worsens every year. To address humanity's greatest needs, the global community needs to crowd-in new ideas, new sources of investment, and innovative new players and shift the status quo. This begins with changing policies, business culture and norms to make it easier for public institutions to work with the most innovative organizations in the world, and especially with the many local innovators that are best positioned to achieve the SDGs.

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