[DRAFT: PLEASE PROVIDE COMMENT TO POLICY [AT] UNLOCKAID.ORG BY JAN 31]

To: U.S. Secretary of State Marco Rubio
From: Unlock Aid
Date: 1 February 2025
Re: Shaping the 90-day Foreign Aid Review

President Trump's 90–day reevaluation of U.S. foreign aid presents a once-in-a-generation opportunity to reimagine and ultimately transform the future of U.S. global development.

The Challenge: Every year, the U.S. invests approximately $60B to address global challenges. While this amounts to less than 1 percent of the annual federal budget, this funding has the potential to create outsized returns for the United States and its partners around the world.

However, too much of our current funding is channeled via a hyper-consolidated and entrenched aid industry, perpetuating aid dependency, with too few funds reaching local groups or private sector players with more sustainable business models. Most funding pays for activities instead of results. The United States is an innovation power, but we fail to meaningfully invest in or promote technology adoption to solve the biggest challenges facing the United States and its partners. Countries increasingly tell us they want investments (not aid) to drive economic growth, bringing benefits to both them and the United States, yet our foreign aid architecture is not set up to respond to this growing demand. Instead, in the absence of investment, countries turn to our global competitors.

The Opportunity: Modernizing the way the United States invests its $60B in global spending can propel global economic growth and prosperity and solve many of the biggest, interconnected challenges facing the U.S. and its partners. This memo summarizes how the Trump Administration can use the 90-day review period to:

1. **SECTION FORTHCOMING REGARDING CONTINUE LIFE-SAVING PROGRAMS, E.G. PEPFAR, CONTRIBUTIONS TO GAVI/GLOBAL FUND, ETC.**

2. **Increasingly direct spending to ways that promote sustainable economic development and growth**

3. **Make innovation core to the United States' value proposition**, including by creating dedicated pathways for innovators to partner with U.S. foreign affairs agencies

4. **Scale evidence-based solutions** that demonstrate strong returns on investment while discontinuing ineffective programs

5. **Break aid industry dependencies** by shifting a greater share of funding to local groups that can manage long-term needs and capping what intermediary aid groups can collect

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What follows are technical recommendations illustrating how the Trump Administration can realize these objectives.

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1. SECTION FORTHCOMING REGARDING CONTINUING LIFE-SAVING HUMANITARIAN AND HIGHLY-EFFECTIVE HEALTH PROGRAMS, E.G. PEPFAR, CONTRIBUTIONS TO GAVI/GLOBAL FUND, ETC.

2. INCREASINGLY DIRECT SPENDING TO WAYS THAT PROMOTE SUSTAINABLE ECONOMIC DEVELOPMENT & GROWTH

Current Problem:

- Partner countries and communities increasingly say they want a U.S. approach that propels broad based economic growth and that creates new markets, not "aid" projects managed by international contracting firms
- Countries, subnational partners, and local communities want greater agency regarding how investments are made in their countries (something that would position the U.S. as a better partner vis-a-vis its global competitors)
- Many long-term development assistance programs operate in sectors with robust private sectors, especially in healthcare, agriculture, conservation, and power generation, and/or have capable host partner governments and local partners, but U.S. foreign assistance channels the vast majority of funding via large international intermediary contracting firms, which risks creating aid dependency and/or displacing local markets
- U.S. development agencies that are better suited to driving economic growth (especially the DFC and the MCC) receive insufficient funding relative to our overall spending on U.S. foreign assistance

Recommended Actions:

- Direct USAID to create joint spending and co-financing vehicles with aid-recipient countries, like compacts, that enable co-financing and joint decision-making for new programs
- Determine which new programs managed by the State Department and USAID should:
  - Transition to host-country co-financing and management within an X-year defined time horizon, e.g. by designing future programs as compacts or joint corporations with host country/community partners, where both sides share in the program design and desired results, selection of partners, and the host country (or subnational government) takes over long-term financing and management;
  - In USAID-funded areas with robust private sectors, execute more blended finance transactions in those sectors with the DFC to promote local market development, e.g. in global health supply chains;

    - Remain at the current agency in its current form (e.g. State/USAID) because a) management/financing of the program should not be assumed by local governments (e.g. in human rights) *or* b) because evidence shows existing methods deliver extraordinary results; *and* c) because the program can surpass basic cost-effectiveness tests, such as cash benchmarking
- Require additional scrutiny on any program that spends more per program participant than GDP per capita
- Refocus USAID funding on interventions that have a systemic effect on the business-enabling environment, such as trade facilitation programs, and stop programs targeting <100,000 individuals unless that program is piloting an innovative approach

2. EMBRACE TECHNOLOGY AND PRIVATE SECTOR INNOVATION

Current Problem:

- U.S. drastically under-invests in innovation and technology adoption compared to defense and other sectors
- Many countries around the world *want* the benefits of American innovation as well as to boost investments in their own local innovation ecosystems
- While "Big Tech" companies can easily interact with the government, there is no clear entry point for social entrepreneurs, "Little Tech" startups, and other innovative firms to work with foreign affairs agencies
- Given rising costs to address global challenges and with declining budgets for development assistance, traditional approaches are no longer sufficient
- Procurement rules and red tape lock out the most innovative potential partners

Recommended Actions:

- Create a Global Innovation Office, modeled on Defense Innovation Unit, to serve as a one-stop shop for innovators to work with U.S. foreign affairs agencies
- Establish within this Global Innovation Office a development-focused Small Business Innovation Research (SBIR)-like program to provide tiered funding to startups and other innovative firms, including from partner nations, to prototype and scale commercializable solutions to development challenges
- Hire into this office individuals with background working in investing, technology, and startups
- Oversee a "Missing Middle Fund" or "Valley of Death Fund" to help successful pilots that can be supported by private markets to reach commercial scale
- Institute revenue tests to verify that the firms supported by this Office are legitimate innovative firms and startups with a diverse customer base, not just small government contracting firms
- Overhaul procurement rules to attract world-class technology firms, for example, by issuing multiple smaller awards to technology firms to hit ambitious predetermined milestones with scale-up funding available only to the firm(s) that can best hit the targets at or under costs

- Make greater use of procurement tools like Other Transaction Authority and Innovation Incentive Award Authority to enable U.S. agencies to more easily work with innovative commercial firms
- Direct this office, via U.S. embassies around the world, to identify what proven innovations developed overseas can be brought to the United States to serve Americans' needs

3. SCALE WHAT WORKS, DO NOT SCALE WHAT DOESN'T

Current Problem:

- Highly effective programs like USAID's Development Innovation Ventures ($17 ROI per $1 spent) remain small and siloed
- No systematic way to scale proven and evidence-based solutions
- Limited accountability for results
- Millions spent testing innovations that never reach meaningful scale
- Entrepreneurs face "Valley of Death" between pilot and scale

Recommended Actions:

- Task the Chief Economist to oversee an effort to require large USAID bureaus to create dedicated funding pathways to scale most cost-effective solutions supported by DIV, other innovation programs (such as investments made by the Global Innovation Office), and other cost-effective investments relevant to their sectors
- Prioritize scaling solutions that can ultimately be sustained by local markets
- Create a standardized pay-for-results framework to increase accountability for spending and to enable outside funders (e.g. impact investors, foundations, etc.) to co-invest

4. BREAK AID INDUSTRY DEPENDENCIES TO ENSURE FUNDING REACHES INTENDED RECIPIENTS AND LOCAL ACTORS

Current Problem:

- Approximately 90% of USAID funding flows through international aid contracting organizations largely based in/near Washington, DC and other international capitals. These groups spend most of the money they receive on themselves despite marketing themselves as "intermediaries"
- These intermediaries cost the U.S. government huge sums through excessive overhead, DC-based salaries and costs, and high expatriate salaries while creating unnecessary bureaucratic layers and reducing available funding for targeted local groups
- Hyperconsolidation in any sector drives up costs, limits competition, and stifles innovation, and this is particularly true in the context of U.S. foreign aid

Recommended Actions:

- Increase the share of funding that goes directly to local actors with sustainable business models that can take over the long-term financing and management of the work
- When USAID does need to work through an international contracting partner as an intermediary, cap the total amount that intermediaries can capture for any award over [$50M] at 20%, including overhead, staff costs, and other fees, to ensure they truly function as "intermediaries," and that the majority of subcontracted funding reaches frontline implementers and private sector partners
- Require public reporting of percentage of funding prime contractors promised to subcontractors versus actual amount disbursed
- Break up future USAID grants/contracts that are especially large and issued out of Washington, DC as "global" awards and reissue them as smaller awards at the country level, enabling more innovative players and local actors to compete
- Apply revenue tests to ensure the organizations USAID works with have diversified business models and not wholly or largely dependent on U.S. government funding