USAID Breaking Down Market Barriers to Entry for Small US Businesses and Not-For-Profit Organizations

April 2022

This article is for US small businesses, not-for-profit organizations, and non-US companies and organizations that aspire to have the US Agency for International Development (USAID) as a new client. USAID has gradually reduced barriers to entry for these companies and organizations, with some of the more notable examples cited below.

- **The New Partnership Initiative (NPI)**. In 2019, USAID created NPI to diversify…*USAID's partner base…to lower the barriers faced by nontraditional partners—including local actors, U.S. small businesses, faith-based organizations, cooperatives, diaspora groups, and civil society organizations*.[1] As of late January 2022, USAID had formed 29 partnerships with nearly 60 organizations, valued at over $400 million.[2] These partnerships have funded activities across a number of sectors including education, health, conflict and peacebuilding, and support to marginalized groups. While footprints of the long-time USAID implementing partners are still counted amongst some of the awardees, NPI represents an increasingly popular, potential entry point for aspiring implementing partners to consider USAID work as part of their business development strategy.

- **Increasing Scopes of Work for US Small Businesses**: Several years ago, USAID's small business contracts focused on providing institutional support services such as staff augmentation (*putting butts in seats*), monitoring and evaluation, and analytical services. Many of the small businesses that provided those services to USAID back then are now large businesses or were merged / bought / swallowed up by larger USAID implementing partners. Historically, offering MEL services to USAID has proven to be a consistent path for small businesses to achieve large business status. That is, if that small business wanted to graduate and face new levels of competition.

  Over the last five years, though, USAID has broadened the scope of services that small businesses can provide. One look no further than the number of small business slots in some of USAID's more recent solicitations (*see text box*). While not all of these small and large business prime slots were awarded – this is evidence to USAID's commitment to 'walking the talk.'

  More SB Seats at the USAID IDIQ Table

  - **Programming for Prevention and Peacebuilding** (July 2021) – eight total prime slots; three reserved for SBs.
  - **Building Resilient and Inclusive Communities in Conflict** (Dec 2019) – eight awards, four of which are SBs
  - **Support Which Implements Fast Transition 5** (Sept. 2019) – stabilization programming – five new primes; Two of which are SBs
  - **Public Financial Management II** (Aug 2018) – public financial management – Five SB primes out of a total of 10 primes.
  - **Active Communities Effective States** (June 2018) - eight total prime slots; minimum five reserved for SBs.

- **Indirect Rate Cost Requirements**. USAID allows its implementing partners to charge indirect rates – expressed in percentages – for its fringe benefits, overhead, and general and administrative costs. Historically – pre-2018, anyway – bidders on USAID contracts and cooperative agreements had two primary ways to demonstrate their indirect rates for these costs – through a USG-approved Negotiated Indirect Cost Rate Agreement (NICRA) or the submission of three years of audited financial statements. To qualify for a NICRA, a bidder must have first been awarded a USAID contract or cooperative agreement – either as a prime or a subcontractor. As for the three years of audited financial statements, small companies and organizations were unable to afford the $30,000 average price tag of an audited

1 https://www.usaid.gov/npi
2 https://www.usaid.gov/npi/npi-awards

financial statement – much less three times over a three-year period.

If any of these two options were not satisfied, companies and organizations were left to charging a 10% flat fee (*de minimis*) on their total budgeted costs, along with associated fringe benefit expenses. This was certainly an unfriendly business environment for nascent organizations because if they wanted to enter the USAID market, their first award was effectively a loss leader until they could qualify for a NICRA.

In 2018, we began to see a 'relaxing' of these requirements. Specifically, USAID introduced a third option to qualify for charging indirect costs on USAID awards called 'reviewed' financial statements. This allows nascent and small organizations to engage an accounting firm to review and certify their financial statements at a mere fraction (50% or more) of the $30,000 audit. This option alone moved USAID atop the USG small business-friendly list in providing development assistance funding.

Collectively, these three recent enhancements elements have broken down historical barriers for new players to enter the USAID market. Of course, there still exists unexplained practices like '*Why are there no small business set aside requirements on USAID cooperative agreements?*.' However, Rome, glaciers, and USAID were not built in a day. Relatively speaking, USAID should be commended on how far they have come and hopefully, how much further they will go.

Now, **here comes the 'but.'** None of these initiatives will matter if you do not educate yourself on the written and unwritten rules of doing business in the USAID market. Hopefully, this will happen before your company or organization invests thousands/millions of dollars into an industry that is unlike doing business with other global donors like the European Union, World Bank, GIZ, or FCDO (UK funding). Without this due diligence, the 'dance' required to enter the market can be painful and, in some instances, sour your taste for working in development at all.

Here are just a few helpful hints when considering that dip into the USAID market.

- **Articulate Your Value Proposition**. There are an increasing number of new players attempting to break into and/or expand their footprint in the USAID market. They hail from Silicon Valley, Europe, other USG agencies' implementing partners, and the long-time development professionals tired of the status quo. Most say they are innovative; some say they are incubators; and all say they have been doing localization before Localization became a proper noun. To rise above this noise, and gain the attention of USAID and its top 20 implementing partners, figure out how your company or organization innovates, incubates, and localizes different from your competitors. Define a clear and concise value proposition so you can spoon feed it to those that already have enough on their plates. Get caught up on USAID's latest priorities, policies, and strategies and get ready for the acronym-ization of USG development assistance.

- **USAID Implementing Partners Will Not Ask You to Increase the Cost of Your Services.** As a new entrant to the USAID market, you may not have a NICRA. You may not even have forward pricing rates as determined through your audited or reviewed financial statements. As such, no matter how much differentiated innovation, incubation, and localization your company or organization offers, you represent a more affordable alternative to existing USAID implementing partners.

  The comparison is simple. A competitive multiplier in the USAID market hovers around two (2.0) for NICRA-possessing companies and organizations. That means that when they propose a full-time advisor (employee) at a rate of $400 / day, the inclusion of fringe, overhead, and general and administrative costs applied to that $400 / day will increase the cost to USAID by 2x – or $800 / day. Without a NICRA or forward pricing rates, you are left to applying the 10% de minimis as discussed earlier. So, instead of capturing all allowable indirect costs your company or organization incurs to provide that advisor to USAID, you can only charge USAID approximately $440 / day. As a consequence, three things will happen:

1. You cheapen the value of your own services – labor and non-labor expenses alike
2. You allow USAID's prime implementing partners to include more of their own services / costs
3. While you offer more affordable services to USAID, it comes at a price – a hit to your company or organization's bottom line.

The moral of the story? Get your books straight so you can recover all costs associated with providing your differentiated services to the regions, countries, communities, and people that need it the most.

- **Buyer Beware.** Today, the ever-increasing need to capture intelligence prior to a solicitation release is a direct result of USAID's (a) increasing transparency of its near-term procurements (*e.g., USAID Forecast*); (b) issuance of draft scopes of work well in advance of the solicitation (*e.g., RFI or IEE*); and (c) requirement for potential awardees to demonstrate a deep understanding of the local context in their proposal responses.

  There are significant advantages – to both USAID and its implementing partners – due to these USAID enhancements. First, primes have a much better idea as to the type of services that will be required, down to the activity level, prior to solicitation release. Second, with some surety, they also know what kind of contexts – political, security, cultural, and economic – need to be gathered to demonstrate to USAID that they know what is going on in the country / region. Finally, it also means that primes have more time to gather intelligence, secure key personnel and partners, and begin writing their technical response earlier than ever before. Front loading intelligence gathering prior to the solicitation may also lead to your organization being able to pursue more opportunities during the year. In the end, USAID benefits by raising the quality level of the technical, management, and cost solutions proposed to support their mission. Consequently, these factors have increased a primes use of Pre-Teaming Agreements (PTAs) to secure its partnerships before solicitations are released.

  When USAID's release of draft scopes of work were rare, the PTA was rarely used. In fact, most USAID implementing partners simply used Teaming Agreements (TAs) that, 95% of the time, rolled over to when the actual solicitation was released. There was a level of certainty subcontractors and partners enjoyed that if they signed an exclusive agreement prior to the solicitation release, they would have a role in the implementation of that project, if awarded to their prime.

  While a majority of PTAs still rollover to TAs upon solicitation release, all USG implementers can cite a time or three when a prime signs a PTA with your company, conducts technical design sessions, and then asks you to answer questions by email – again, all prior to solicitation release. When the solicitation finally comes out, you learn that either the prime no longer needs your services or the 'share' of work, as envisioned in your PTA, is now less because you 'shared' your differentiators too early.

Now, there are plenty of USAID implementing partners that fall outside what I have described above – due to the reputable and trustworthy people they have working for them. For those that have yet to delve into these issues, do your due diligence, find trusted small business and NGO-friendly industry advisors to help guide your way (*e.g., teach you how to dance*), and have low expectations. Odds are that your organization will be able to stay true to its mission, deliver quality support to global populations in need, and over time, work itself out of a job.

The author is Mr. Daniel Ganz, President of Federal Capture LLC. He a senior executive with 20 years of experience designing, winning, managing, and implementing USAID-funded programs in Latin and Central America, Eastern Europe, the Middle East, Africa, and Asia. Throughout his business development career, he has developed 'go-to-market business development strategies and created flexible processes and systems to help his clients break into new global markets and/or expand their existing footprints in their core service areas. He is on the Board of Trustees for The Fund for Peace, a US non-profit, non-governmental research and educational institution that works to prevent violent conflict and promote sustainable security around the globe.