PAYING FOR RESULTS: MANAGING RISK IN FIXED AMOUNT AWARDS WITH LOCAL PARTNERS

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ACRONYMS

A&A	Acquisition and Assistance
ADS	Automated Directives System
AJTCD	Association Jeunesse Tamdoult pour la Culture et le Développement
ASG	Association Subahi Gumo
AO	Agreement Officer
AOR	Agreement Officer's Representative
CFR	Code of Federal Regulations
DIV	Development Innovation Ventures
ECMI	European Center for Minority Issues
FOG	Fixed Obligation Grant
FY	Fiscal Year
LCS	Local Capacity Strengthening
LFT	USAID Local, Faith, and Transformative Partnerships Hub
MEL	Monitoring, Evaluation, and Learning
NGO	Non-Governmental Organization
NOFO	Notice of Funding Opportunity
NPI	USAID New Partnerships Initiative
NUPAS	Non-U.S. Organization Pre-Award Survey
OMB	Office of Management and Budget
RAS	Risk Appetite Statement
USAID	U.S. Agency for International Development

INTRODUCTION

This white paper explores how both USAID staff and recipients approach fixed amount awards, understand risks, and mitigate those risks during activity design and implementation. It is informed by interviews with both Agency staff and representatives from organizations that have implemented USAID fixed amount awards. The findings and recommendations presented here are a reflection of the experiences and ideas shared by interviewees, not necessarily the opinions of the authors. This paper is intended to serve as a resource to broaden the understanding of fixed amount awards and inform the way they are used, especially with local partners around the world. Finally, while this paper investigates risks related to local partners, it should be noted that local partners are no riskier than any partner that is new, or unaccustomed to, fixed amount awards.

OVERVIEW OF FIXED AMOUNT AWARDS

A fixed amount award is a type of grant or cooperative agreement in which USAID provides a specific level of support without regard to actual costs incurred. Instead, accountability is based primarily on performance, and payments are tied to the achievement of established objectives. Fixed amount awards are appropriate when activities have measurable goals and when adequate pricing data exists to establish the payment amounts. They are an important tool in USAID's toolkit, allowing the Agency to forge partnerships with a diverse range of entities, including those with little or no experience with USAID. When implemented correctly and in the spirit of partnership, their use is well-aligned with USAID's localization agenda, placing trust in partners to achieve results. Fixed amount awards have been a significant factor in enabling USAID to expand its reach and impact, encouraging a wider array of solutions and innovative approaches to tackling development challenges by opening up a new pool of potential partners. Over time, USAID has worked to refine and enhance the fixed amount award mechanism, including offering training and resources to staff on how to utilize this tool effectively, marking a continual evolution in the Agency's approach to award management and collaboration.

REGULATORY FRAMEWORK AND FEATURES

The federal regulations governing fixed amount awards are included in 2 CFR Part 200, while USAID's policies and procedures are set out in ADS Chapter 303, Grants and Cooperative Agreements to Non-Governmental Organizations. Further practical guidance is provided in ADS 303saj, Fixed Amount Awards to Non-Governmental Organizations. Before making a fixed amount award, the Agreement Officer (AO) must complete the Fixed Amount Award Entity Eligibility Checklist (ADS 303mak) as part of USAID's risk assessment of the potential recipient and the activity. Refer to Annex A: Resources, for links to these and other resources.

Payments may be structured based on an agreed upon unit price, in one payment at completion, or, most commonly, in several partial payments based on agreed upon milestones. Unlike in cost reimbursable awards, in fixed amount awards the cost principles in 2 CFR 200 Subpart E are only used as a *guide* to determine the award's overall amount. This means that payment should be based on a realistic estimate of the allowable, reasonable, and allocable costs of performance, but once the milestones and payment structure are established, the actual costs incurred become irrelevant and are not reviewed by USAID. This reduces some of the administrative burden and record keeping requirements for both the recipient and USAID. There is no ceiling on the total amount of a prime fixed amount award.

Milestones and payments may be structured to provide recipients with upfront funding for activities to ensure they have the necessary liquidity to perform activities. This can be done using an early initial milestone—like receipt of a draft implementation plan or evidence of hiring key personnel—and through structuring milestones in a way that provides cash flow for the subsequent activities. In a fixed amount award, payment is not based on the actual costs, and the payment for a milestone does not necessarily directly correlate with the cost of achieving that milestone. However, an award's payment structure may be amended if the payment structure or milestones are no longer feasible or appropriate due to circumstances beyond the recipient's control.

Given the importance of having current, reliable information to estimate costs, the duration of fixed amount awards is generally limited to three years to ensure the costs of performance stay within the established payment structure. If a longer award is required, per ADS 303 USAID must structure it as a renewal award, whereby a recipient can reapply at specified point(s) to continue the same award for up to five years total. This provides USAID and the recipient the opportunity to define additional activities, milestones, and payments. The intent to use a renewal award and its timeframe must be included in the original Notice of Funding Opportunity (NOFO).

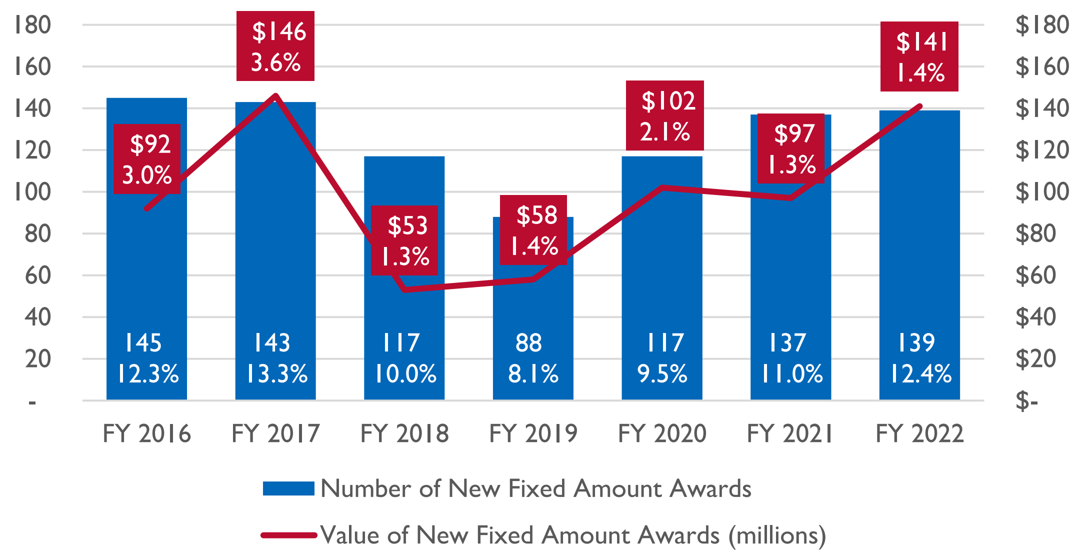
HISTORY OF FIXED AMOUNT AWARDS

The predecessor to USAID's fixed amount awards was fixed obligation grants (FOGs). While a FOG is similar to a fixed amount award, a FOG could not exceed three years or more than $500,000 per year. FOGs were originally conceived as a way to streamline the process of awarding funds by setting clear, predetermined objectives and linking funding directly to their achievement. This funding model was favored for reducing administrative burdens and allowing a focus on the desired outputs and outcomes rather than on detailed cost accounting. However, it also necessitated a high degree of trust in the recipient's ability to manage funds effectively and deliver the promised results.

In September 2015, USAID finalized a rule to comply with the Office of Management and Budget's (OMB) new rule, 2 CFR Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," and updated ADS 303 accordingly. This resulted in the shift from FOGs to the fixed amount award, among other changes, with the goal of streamlining the administration of assistance instruments and emphasizing performance over compliance. The transition to fixed amount awards marked an evolution towards an even more results-oriented approach to funding. Moreover, the introduction of fixed amount awards accompanied a shift in risk management dynamics, as USAID embraced a more risk-tolerant approach in pursuit of creativity and innovation.

Still, fixed amount awards make up a very small portion of USAID's assistance portfolio. In Fiscal Year (FY) 2022, USAID made 139 new fixed amount awards, 12.4% of all new assistance awards, totaling $141 million, or only 1.4% of new assistance by value (see chart below).

EXHIBIT 1. NUMBER AND VALUE OF NEW FIXED AMOUNT AWARDS, AND PERCENTAGE OF NEW ASSISTANCE AWARDS



HOW FIXED AMOUNT AWARDS FIT INTO USAID'S STRATEGIES

USAID has long been an advocate for locally led development through its policies and programs. In November 2021, Administrator Samantha Power announced two ambitious targets to advance the Agency's goals around shifting funding and decision-making to local people, organizations, and institutions: 1) By FY 2025, 25 percent of its funding will go directly to local partners, and 2) By 2030, at least half of its programs will create space for local actors to exercise leadership over priorities, activity design, implementation, and defining and measuring results. In FY 2022, direct local funding made up 10.2 percent of USAID's obligations, a highwater mark for the Agency.

Fixed amount awards are one tool that may help in this pursuit, as they present a lower barrier to entry for working with USAID. Unlike with other award types, an AO can use the simplified Fixed Amount Award Entity Eligibility Checklist to assess a potential recipient's eligibility rather than the more in-depth and time-consuming Non-U.S. Organization Pre-Award Survey (NUPAS). To illustrate the difference, consider that a NUPAS may require, in part, a detailed review of an organization's accounting system and scrutiny of policies and procedures for things like procurement and human resources, whereas the Checklist is narrower in scope to focus on an organization's integrity and capacity to implement the proposed activity. It is worth noting here that USAID revised its NUPAS guidelines in 2023 to allow for more AO discretion in tailoring pre-award surveys, with the potential to streamline the process for local partners regardless of award type.

Moreover, implementing a fixed amount award can be less daunting for new partners as it streamlines their administrative and reporting requirements, allowing them to focus on delivering the agreed milestones. In this way, fixed amount awards may be seen as a reliable entry point for local partners, familiarizing them with USAID's policies and procedures and building relationships with both Agency staff and others in its ecosystem.

USAID often takes this a step further by explicitly incorporating milestones focused on improving organizational systems and structures—typically as a result of the pre-award survey or risk assessment—or milestones tailored to recipient-defined capacity strengthening priorities. As laid out in USAID's Local Capacity Strengthening (LCS) Policy, the Agency seeks to undertake inclusive and locally led capacity strengthening as a means for sustainable development. The principles of that policy may be incorporated into fixed amount awards to local actors by including milestones that address awardees' priorities, existing strengths, and performance improvement goals. As the LCS Policy is implemented, the Agency may incorporate more recipient-generated milestones based on self-defined goals. Examples of organizational strengthening milestones could include strengthening advocacy networks to promote local voices and accountability, improved personnel policies and procedures, or the development of an organizational sustainability plan.

One objective of USAID's latest Acquisition and Assistance (A&A) Strategy, finalized in March 2023, is to engage a more diverse set of partners to implement locally led development solutions. This means in part embracing flexible and creative uses of existing award mechanisms and making better use of the various features at the Agency's disposal, including fixed amount awards, among others. The A&A Strategy acknowledges that achieving this objective, however, will require USAID to embrace a new mindset when it comes to risk, shifting from being risk-averse to risk-aware.

FROM RISK AVERSION TOWARDS RISK AWARENESS AND MANAGEMENT

In 2016, the OMB required federal agencies to integrate Enterprise Risk Management—a holistic framework for identifying and managing risks as an interrelated portfolio—into their internal control systems. In response to this directive, USAID developed a Risk Appetite Statement (RAS) to support staff in making informed decisions about risk throughout the Program Cycle. The RAS outlines the types of risk the Agency is willing to accept in pursuit of its mission across eight key risk areas: programmatic, fiduciary, reputational, legal, security, human capital, information technology, and operational.

> **"The goal is not to control or avoid all risk, but rather to take advantage of opportunities, while reducing or mitigating threats to maximize the Agency's overall likelihood of achieving its mission and objectives."**
>
> **— USAID RISK APPETITE STATEMENT, AUGUST 2022**

The Agency is careful to point out that risk, defined as the effect of uncertainty on objectives, is not inherently positive or negative. Evaluating risk holistically provides a clearer picture of the full spectrum of risks and their combined impact on the achievement of USAID's objectives. Within the RAS, eight key categories of risk are assigned an overall risk appetite, alongside more nuanced guidance for particular activities and aspects within each risk category. A "low" risk appetite applies to areas in which the potential downsides are intolerable, and risk is sought to be minimized or eliminated. A "medium" risk appetite applies to areas in which the Agency strives to strike a balance. A "high" risk appetite means the Agency is open to disciplined risk taking due to the potential upside. USAID's overall risk appetite for each category is summarized in the table below.

EXHIBIT 2. USAID'S RISK APPETITE BY CATEGORY

RISK CATEGORY	DEFINITION	OVERALL RISK APPETITE
Programmatic/ Development Outcome	Events or circumstances that could potentially improve or undermine the effectiveness of USAID's programmatic goals.	High
Fiduciary	Events or circumstances that could potentially advance the efficient use or contribute to the inefficient use and control of USAID resources. It includes corruption, fraud, waste, abuse, loss, mismanagement, or unauthorized use of U.S. Government funds, property, or other assets.	Low
Reputational	Events or circumstances that could potentially improve or compromise USAID's standing or credibility with Congress, the interagency, the American public, partner country governments, multilateral institutions, implementing partners, beneficiaries, or other stakeholders.	Medium
Legal	Events or circumstances that could potentially improve or compromise compliance with law, regulation, Executive Order, enforcement of contractual agreements, ethics requirements, or other sources of legal or regulatory actions.	Low
Security	Events or circumstances that could potentially improve or compromise the security of USAID workforce members, partners, property, information, data, funding, resources, or facilities.	Low
Human Capital	Events or circumstances that could potentially improve or compromise the capacity, productivity, recruitment, hiring, retention, and well-being of employees.	Medium
Information Technology	Events or circumstances that could potentially improve or compromise the processing, security, privacy, stability, capacity, performance, or resilience of information technology.	Medium
Operational	Internal and external events or circumstances related to Agency strategy selection, prioritization, modification, implementation, processes, and tools that may improve or compromise achievement of USAID goals and objectives.	Medium

In particular, USAID's risk appetite for working with local partners, programmatically, is high. Considering that no partnership or operating context is without risk, the RAS recognizes that supporting local ownership and capacity strengthening, while not inherently riskier for the Agency than working with any new partners, may be more resource-intensive or come at the expense of short-term results. Ultimately, the potential downside here is outweighed by the contributions to USAID's mission and benefits to the communities it serves. From a fiduciary risk perspective, the Agency has a medium risk appetite for funding local partners, meaning this goal must be balanced with safeguards against possible fraud, corruption, or diversion of funds.

USAID RISK MANAGEMENT PROCESS

1. Establish the Context
2. Identify Risks
3. Analyze and Evaluate Risks
4. Develop Alternatives
5. Respond to Risks
6. Monitor and Review
7. Communicate, Learn, and Adapt

USAID has adopted a seven-step risk management process (see box) as a tool for decision making, informed by the RAS as a guide to acceptable levels of risk. The Agency encourages smart risk taking in a well-informed and documented manner that balances risk with opportunity. The seven steps are used to plan, assess, evaluate, implement, and adapt activities as described illustratively below in the case of a fixed amount award. While each distinct step may not be carried out as a neatly sequenced process, particularly at the activity level, they are meant to provide a guiding framework—rather than a burdensome process—for AOs and others in the Agency to identify, understand, and respond to risks.

Step 1: Establish the Context

Before embarking on making a fixed amount award for an activity, AOs should have a comprehensive understanding of the regulatory frameworks that govern these awards and of their own authorities within them. At this step, AOs consider the specific goals of the project, align them with the operating environment, and determine how a fixed amount award can best be structured to facilitate achieving these goals. Establishing a well-defined context at the outset can act as a blueprint, helping to streamline subsequent processes and ensure alignment with objectives and compliance requirements.

Step 2: Identify Risks

At this step, AOs identify potential risks—across all eight risk areas—specifically associated with the fixed amount award. This is accomplished primarily by using the Fixed Amount Award Entity Eligibility Checklist, which addresses six topics: organizational integrity; organizational capacity; past performance; activity implementation viability; a pre-award financial review for authorizing advances of funds, if necessary; and certifications, assurances, and representations. While the relevant Office of Acquisition and Assistance leads this process, as a best practice, personnel from the technical, financial management, and program offices should also be included.

Step 3: Analyze and Evaluate Risks

Once the potential risks are identified, AOs formally and informally analyze and evaluate these risks, collaborating with the operating unit and the implementing partner as much as possible. This involves delving into each identified risk, i.e., point(s) on the checklist that the organization does not fully meet and gauging its possible impact. It also requires considering risks in their totality, recognizing the ways risks may interact with or balance one another. How critical a weakness is depends on the scope of the activity. For instance, if part of an activity involves procuring recycling bins, and the organization does not have an adequate procurement system, that fact may pose a significant risk to implementation.

Step 4: Develop Alternatives

Developing alternatives is a crucial step for fostering innovation and flexibility within the fixed amount award framework. At this juncture, AOs explore various avenues and strategies that could be employed to manage identified risks effectively while maintaining the goals of the activity. This could include considering alternative milestones, payment schedules, or monitoring frameworks. It is essential at this step to foster a collaborative environment where different stakeholders can contribute insights and suggestions, ultimately creating a pool of viable alternatives that can be drawn upon to respond effectively to potential risks.

Step 5: Respond to Risks

In response to the analyzed risks, AOs craft and implement strategies to mitigate potential pitfalls effectively. This phase requires clear action where the best alternatives developed in the previous step are put into play. For instance, officers might decide to adjust the award amount, modify milestones, or implement more robust monitoring mechanisms to oversee the project. Or, USAID may determine the best response is to simply accept the risk. The goal at this step is to not only respond to potential risks but also to have contingencies in place to address any issues that might materialize during the award lifecycle.

Step 6: Monitor and Review

At this stage, a diligent monitoring and review process is established. AOs and AORs closely track the progress of the award, as reasonable and appropriate for the fixed amount award type. This process is not meant to be static; instead, it should be adaptable based on the real-time data and feedback generated during the monitoring process. Regular reviews and discussions with the implementing partner will facilitate timely identification of any emerging risks or challenges, allowing for swift adjustments and interventions to keep the activity on track.

Step 7: Communicate, Learn, and Adapt

The final step involves nurturing an ecosystem of transparent communication and continuous learning. AOs should establish channels that foster open dialogue with award recipients, facilitating a mutual exchange of feedback and insights. Additionally, USAID should be committed to learning from each activity's experiences, documenting successes and challenges, and using this knowledge to adapt and enhance future award management processes. This cycle of communication, learning, and adaptation forms a cornerstone for improving the efficacy and success rate of fixed amount awards, fostering a culture of continual improvement and excellence.

RISKS WITHIN THE FIXED AMOUNT AWARD STRUCTURE

USAID staff and implementing partners interviewed for this white paper shared several possible risks—both real and perceived—posed by the fixed amount award structure as implemented, as exist with any acquisition or assistance mechanism. Measures that can be taken to mitigate these risks and help balance overall risk levels between USAID and implementing partners are outlined in the subsequent sections.

RISKS TO USAID

If the award is made as a grant—as is the case for most fixed amount awards, as opposed to a cooperative agreement—the agreement will not provide for "substantial involvement" on the part of the Agency. Managing and paying based on results, in contrast to reimbursing for individual cost inputs, has the promise of posing less of a management burden for USAID staff during implementation, but may also provide for limited day-to-day oversight of activities. This could result in the perception of programmatic risk, i.e., uncertainty around the quality or impact of interventions. Other interviewees stated that fixed amount awards cause worry as the Agency may not have critical details on programs when needed, say, for internal purposes, interactions with host country counterparts, or even reporting to Congress.

The fiduciary risk for USAID is low overall. Potential fixed amount award recipients must provide to USAID a detailed budget and a narrative describing the cost and pricing data used to establish the overall amount of the award. AOs use the cost principles as a guide to assess whether the proposed costs reflect a reasonable estimate of the costs of performance or delivery of results. As the name implies, the amounts then become fixed regardless of the costs incurred by the partner in implementation. One possible outcome is that due to overestimation of costs, currency fluctuations, or other factors, USAID ends up paying significantly more or less than the results actually cost to achieve. Ultimately, this is immaterial due to the structure of the award, but is often perceived as a risk, therefore reinforcing the importance of the original cost analysis. A related but distinct risk stems from the structure of the milestone payments—if too large a share of the fixed amount is paid upfront during the award, the recipient could lose its incentive to perform and to achieve the ultimate goal(s) of the activity, or at least the final milestone(s).

Additional risks to USAID may come into play in particular when a fixed amount award is not well-designed or clearly understood by all involved parties. For example, using an excessive number of milestones further increases the management burden on both USAID and the recipient and increases the programmatic risk. Poorly designed milestones whereby a recipient is not in a position to perform successfully may pose a reputational risk to the Agency and create a negative perception of it as a donor that does not pay its grantees or even as an institution that does harm to local actors (described further in the next section).

At a broader level, while there is currently no ceiling on the amount for prime fixed amount awards, they tend to be smaller in value for a variety of reasons. As they are often the award type of choice for organizations new to working with USAID, it logically follows that they will be smaller awards meant to introduce a partner to the Agency, prove an organization's capabilities, and/or test a new concept. Their fixed nature also does not lend itself to especially complex projects. Furthermore, without substantial involvement from USAID, there is a tendency to keep fixed amount awards smaller in order to manage programmatic risk, both real and perceived. This fact risks further stretching USAID resources with a larger number of smaller awards, which may cause a net increase on individual workloads without a commensurate increase in A&A staffing.

RISKS TO IMPLEMENTING PARTNERS

Implementing partners likewise shared several risks presented by fixed amount awards. These awards transfer performance risk to recipients, putting the burden on them to fully deliver the agreed results in order to receive payment. Depending on the payment structure and the AO's discretion in modifying an award, a recipient could achieve 99 percent of a target but receive no payment for costs incurred due to technically missing the milestone set out in its award. There is often a litany of external factors that could affect implementation and keep a recipient from meeting its milestones on time, within budget, or at all. For example, host country government policy changes, security concerns, or changes in public health restrictions could all impact the timeline and feasibility of activities. For many local organizations or new partners, not recovering the costs they incurred could be enough to put them out of business.

While recipients' compliance and fiduciary obligations are minimized under a fixed amount award, they face the risk that their actual costs end up exceeding the estimates used as the basis for the award. This could be due to factors like inaccurate or outdated pricing data, inflation, or unforeseen expenses. More challenging for most organizations interviewed for this white paper was managing their cash flow for activities in accordance with the milestone payments. While not a risk inherent to the fixed amount award, if milestones are not properly structured in a way to provide liquidity to recipients, they either cannot carry out their work or must draw from other unrestricted funding sources or cash reserves, if they have them.

Furthermore, for many recipients of fixed amount awards it is not only their first direct USAID award but also their first time managing such a milestone-based agreement. Due to the power imbalances that many partners feel when negotiating with USAID, recipients may sign their awards without fully knowing to what they are agreeing. If they do not understand all of the terms of the award, including its payment structure as well as requirements for things like branding and marking or reporting, they risk falling out of compliance or facing delays in payments.

Finally, bearing in mind that fixed amount awards are often used for new partnerships or new approaches to localization, they pose a reputational risk to implementing partners as well. If the award does not go well and the intended results are not achieved, implementing partners worry that it could sully their reputation with USAID or even have a lasting impact on USAID's openness to partnering directly with other local organizations in the sector or country. One local NGO interviewed for this white paper expressed the weight of being in this position and the internalized pressure they felt to deliver on behalf of other local organizations.

RISK BALANCING AND MITIGATION MEASURES

As USAID seeks to proactively manage risk, rather than simply avoid it altogether, there are several measures it can take in order to mitigate the risks associated with fixed amount awards, regardless of the size of the award or the nature of the recipient. Agency staff must maintain regular monitoring and engagement with partners through things like site visits, routine check-ins, or informal consultations. They can further ensure this oversight by incorporating milestones around USAID involvement, e.g., an approved work plan or quarterly progress reports. If substantial involvement is required, then the award should be made as a fixed amount cooperative agreement instead of a grant. USAID can further mitigate possible programmatic risk by viewing and treating recipients as true partners and maintaining an open, transparent line of communication. This may encourage recipients to proactively share details on activities and raise any potential issues before they become major challenges or barriers to implementation.

Spending the time before an award is finalized to perform a detailed budget analysis, assess the feasibility of proposed results, and collaborate with the recipient on smart milestone design is a worthy investment of time and resources to mitigate risks for both USAID and the recipient. Using capacity strengthening milestones (discussed further in "Lessons Learned") tailored to a partner's strengths and priorities will allow the organization to continue to develop and enhance its ability to deliver on results, again minimizing USAID's programmatic and reputational risk.

For implementing partners, they may structure the milestones to include initial deliverables that will provide liquidity for the startup of activities, e.g., a hiring plan, draft work plan, or baseline assessment, receiving assistance from USAID on the structure when necessary. They can also incorporate cash flow concerns into the rhythm of other milestones and activities or the required verification document(s). One organization interviewed, for example, provided USAID with a pre-payment purchase order (as specified in its award) to verify its milestone for the procurement of a large number of solar panels, an expense it would not have been able to front.

Providing partial payments or modifying milestones can be tricky for USAID to manage given that the fixed amount for a milestone does not necessarily have a 1:1 correlation with the cost of achieving that particular milestone. However, the applicable regulations do allow, at the AO's discretion, the amendment of a payment structure if it is no longer feasible due to factors beyond the recipient's control. An alternative mitigation measure for partners is to break milestones into smaller pieces that will more easily allow for partial payment for partial completion. Additional flexibility can be built into the award by using language like "on or about" or "estimated" for dates of completion rather than hard deadlines.

These and other measures will be discussed further in the following two sections.

LESSONS LEARNED IN FIXED AMOUNT AWARD IMPLEMENTATION

Over the course of interviews with representatives from 19 organizations—16 of which are local—that have received USAID fixed amount awards and 12 Agency staff, several lessons learned emerged from both perspectives, many of them shared by both USAID and its partners. The following lessons represent those that were shared most commonly and consistently across interviews.

A STRONGER, MORE UNIFORM UNDERSTANDING OF FIXED AMOUNT AWARDS IS NEEDED

Not only is the fixed amount award structure likely new to partners, but it is also often unfamiliar to Agency staff given the small share they make up of its assistance portfolio. This means USAID and its partners are often learning together.

Broadly speaking, a lot of decision making happens at the AO level using their independent discretion. When AOs are fully aware of the fixed amount award mechanism and their authorities around it, they can tailor the tool to the circumstances at hand, maximizing its utility and benefits while avoiding inappropriate usage. However, without consistent consultation of ADS 303saj and solid guidance, examples, and other resources, much is left to the interpretation of individuals, which can vary from case to case. Furthermore, when in doubt, it is natural to revert to what is known and what seems safe, which is typically what is required of a cost reimbursable award. This results in inconsistent or even incorrect application of policies. For example, one partner interviewed shared that staff in the mission's Office of Financial Management were expecting them to manage to a detailed budget and receive approval for line-item changes, despite it being a fixed amount award where there is no governmental review of the actual costs incurred by the partner.

While many fixed amount award recipients are new direct partners of USAID, many have received USAID subawards or direct funding from other donors. However, the milestone structure of a fixed amount award may be new to them and not what they had come to expect from a grant. The concept is often introduced to partners fairly late in the award process, perhaps after they could not pass a NUPAS or after USAID has had a chance to learn about their capabilities. Many recipients reported that they signed their awards even without fully understanding it, presenting a significant risk to them.

SPOTLIGHT: EUROPEAN CENTER FOR MINORITY ISSUES IN KOSOVO

ECMI Kosovo was awarded a $2 million fixed amount award, Recycling Matters, after a phased application process for the USAID/Kosovo Local Works Activity. Recycling Matters aims to improve the prosperity and social cohesion of Roma, Ashkali, and Egyptian informal waste collectors while also fostering sustainable community recycling systems. As it is ECMI's first USAID award, the mission built in milestones around capacity strengthening like updating procurement and financial management manuals, developing a conflict-of-interest policy, and strengthening its board governance. ECMI feels this has improved its ability not only to work with USAID, but other donors as well. A key lesson ECMI learned, thanks to guidance from USAID, is not to include milestones dependent on action from the municipality in order to keep them within ECMI's control and minimize its performance risk.

GOOD MILESTONE DEVELOPMENT IS A CHALLENGE

Smart, appropriate, verifiable milestones are the foundation for a successful fixed amount award but can be difficult to develop. Nearly every partner interviewed for this paper had at least one milestone extended beyond the original date due to a variety of factors. To minimize the burden on everyone, interviewees recommended not to include hard deadlines in the award, but rather estimated dates. By using an estimated date range or language like "on or around," USAID can avoid processing amendments and better set up recipients to succeed.

Several recipients and USAID staff reported instances where too many activities or results were bundled together under one milestone and corresponding payment. If just one activity or result is delayed, this will keep the recipient from receiving payment. At least one partner was able to work with USAID to amend its award, breaking a milestone into two to allow for a partial payment while they continued progressing towards achieving the rest. A more prudent approach, however, is to be careful in the initial award design about what is grouped together. There is a delicate balance to be reached between setting so few milestones that the award is too risky to the partner, and so many that it is an administrative burden.

Beyond the milestones themselves, the award must also specify a verification method. It is critical that this is clear, understood uniformly by both USAID and recipients, and easy to verify quickly with a "yes" or "no." In one instance, the prior two factors combined to result in a recipient receiving no payment for almost a year into the award due to a first milestone that bundled too many things and a lengthy process to come to an agreement with USAID on its verification and approval.

SPOTLIGHT: GLASSWING INTERNATIONAL

Glasswing International, headquartered in El Salvador, is implementing a $2 million fixed amount award in support of its National Youth Service Initiative. The activity seeks to develop a model to address the root causes of irregular migration among youth in Guatemala and Honduras that could be replicated in other countries. As a result of this award, the organization's staff across functions—programs, finance, business development, M&E—have a stronger shared language about working with USAID. They feel it has elevated Glasswing's profile and enabled them to collaborate with and support other local organizations in working with USAID.

IMPLEMENTING PARTNERS FEEL FREED TO FOCUS ON RESULTS

Based on interview feedback, despite the risks and challenges fixed amount awards pose to partners, the recipients interviewed for this paper widely reported feeling freed by the award type to focus on results and empowered to make adjustments as they saw fit for achieving their goals. Rather than submitting travel requests or preparing complex vouchers, they could dedicate their time and attention to ensuring high-quality activities and deliverables. Recipients could make programmatic pivots—still in consultation with their AOR—seamlessly so long as they stayed on track with their agreed upon milestones. It also left them less susceptible to ad hoc requests from counterparts or due to turnover in personnel; the limitations of their agreement in this case were a benefit. Philosophically, then, it seems using fixed amount awards for local partners is well-aligned with the spirit of localization, trusting local actors to know best how to achieve the desired results.

SPOTLIGHT: ASSOCIATION JEUNESSE TAMDOULT POUR LA CULTURE ET LE DEVELOPPEMENT (AJTCD)

AJTCD, or Tamdoult, received a $700,000 fixed amount award from USAID/Morocco, one of three local organizations implementing under the Inclusive Civic Education program. Its Citizen Lab works across 23 communes to provide a platform for civic participation. Its executive director described a long but enriching co-creation process with the mission and other partners that improved their understanding of USAID and strengthened the program design. AJTCD simultaneously feels supported by USAID—through regular consultations and site visits—and empowered to make its own decisions in how it reaches its targets. This award marked a turning point for Tamdoult as it believes it is now more widely seen as a well-established, professional organization.

FIXED AMOUNT AWARDS ARE A VALUABLE TOOL FOR STRENGTHENING LOCAL ORGANIZATIONS

Relatedly, fixed amount awards present several opportunities to explicitly strengthen local actors' capacity, but this must be part of a thoughtful approach to their design and management. Whether an organization is participating in a NUPAS or, more simply, the Fixed Amount Award Eligibility Checklist, the pre-award survey team will provide recommendations or—if there is a risk to the award—Specific Conditions as part of an award's terms to address any issues in the recipient's legal, financial, or operational structures. Multiple recipients interviewed for this paper reported having recommendations from their pre-award survey integrated into the milestone payment structure, and as a result, feeling their organization was on stronger footing.

A fixed amount award to a first-time recipient serves as the starting point for cultivating a new relationship and cooperation with USAID. Recipients reported their award served as a solid introduction across individuals and roles to working with the Agency and helped in getting everyone to figuratively "speak the same language." Beyond preparing them to successfully work with USAID, USAID should consider incorporating capacity strengthening milestones that reflect the recipient's own priorities and goals. For example, one new and local partner's award incorporated the development of a five-year strategic plan for the organization, while another included a communications and advocacy strategy.

Recipients widely reported that their organizations were strengthened as a result of their USAID awards. This includes matters like financial management systems, internal controls, board governance, or human resources management—those items associated with risk mitigation—but also goes beyond that to include capacities linked to learning, innovating, and adapting over time. Several partners felt they were able to take their organization to the next level and prove it as a professional, well-established entity. They felt their relationship with USAID, given its reputation as a top donor with high standards, conveyed additional legitimacy and respect for their organization. The boost to their reputation, combined with new direct connections to government counterparts and other partners as a result of their work, has elevated their profile and ability to succeed in their goals.

SPOTLIGHT: ASSOCIATION SUBAHI GUMO

Through USAID/Mali's Conflict Prevention and Recovery Program, Association Subahi Gumo (ASG) received an $840,000 award to contribute to the restoration of social cohesion and dialogue among communities in Diré. While ASG had previously received multiple subawards from USAID implementing partners, this was its first direct award. ASG staff felt they were viewed as true partners by USAID, with an open dialogue and active support starting with co-creation and continuing through implementation. In particular, this award helped ASG make great strides in its monitoring and evaluation practices, volunteer management, and understanding of USAID requirements, in addition to its impact on community reintegration.

CONSIDERATIONS AND BEST PRACTICES TO MITIGATE RISKS IN FIXED AMOUNT AWARDS

Taking into account federal regulations, USAID policy, and the experience and perspectives of both Agency staff and its implementing partners, several topics emerged as best practices when designing and managing fixed amount awards.

SELECTING A FIXED AMOUNT AWARD IS NOT ONLY ABOUT THE RECIPIENT BUT ALSO THE INTERVENTION

> **"'Local' is a terminology of origin, not a description of sophistication."**
>
> **— MOHIB AHMED, USAID/INDONESIA**

Fixed amount awards present an opportunity to broaden USAID's prospective partner base and work with organizations it would not otherwise be able to fund, given the streamlined pre-award survey and reduced administrative burden of fixed amount awards. For some within the Agency, a fixed amount award is the default award type for local organizations or first-time partners. However, fixed amount awards are not always the best choice for some activities, or even for all new partners. Many well-established local organizations are quite capable of managing a cooperative agreement or other cost reimbursable award type that better suits complex activities or dynamic contexts. Fixed amount awards are a great tool when USAID wants to base its payment on results—rather than just inputs—and when the activities can be logically segregated into discrete milestones that are within the recipient's manageable control. There is no ceiling on their overall amount, so they can be used for projects of varying sizes, assuming a good fit otherwise. As some interviewees note, certain types of activities and highly dynamic operating environments simply do not lend themselves to using a fixed amount award, and in circumstances where the intervention or environment is not well-aligned, additional risk is placed on the recipient.

The use of fixed amount awards is not exclusive to local or new partners. Again, depending on the activities, it may be appropriate for recipients of all sizes and experience levels. Fixed amount awards are widely used by USAID's Development Innovation Ventures (DIV), which funds organizations to pilot, test, and scale creative solutions to global development challenges. DIV uses a tiered funding model that embraces programmatic risk for early-stage ideas, and its partners do the same.

THERE ARE BENEFITS TO DESIGNING FOR A FIXED AMOUNT AWARD AT THE SOLICITATION STAGE

By letting the scope of the activities drive the decision to use a fixed amount award, USAID can anticipate the award type earlier in the program cycle. Interviewees shared several benefits to planning for a fixed amount award at the solicitation stage. For potential recipients, learning about a fixed amount award in the NOFO gives them adequate time to understand the award structure and to start early in aligning their proposed activities with a milestone structure. Rather than feeling that the fixed amount structure was sprung on them, organizations can make more informed decisions about activity design that mitigate their own possible risks. Another benefit of planning for a fixed amount award is its simplified Eligibility Checklist. However, USAID frequently administers the NUPAS and then reverts to a fixed amount award based on the results. This negates the possible time saving in the pre-award stage by avoiding a NUPAS and starting with the Eligibility Checklist.

Furthermore, if a fixed amount award is baked into the design, USAID can further develop fixed amount renewal awards, taking into consideration how to reasonably estimate projected growth in the project. Introducing the possibility of a fixed amount renewal award can provide additional adaptability during implementation. Renewal awards are set for an initial period of time—often three years, although this is not a requirement—with an opportunity for the recipient to simply reapply at specified point(s) to continue the same award while adapting activities and targets based on a changing context or lessons learned. Renewal awards and their time frame must be specified in the NOFO, which further demonstrates the benefit of designing for a fixed amount award at the solicitation stage.

THE RECIPIENT MUST UNDERSTAND THE AWARD CLEARLY

If an organization is not aware of or does not understand its award type, it cannot take adequate measures to assess and mitigate its risk. Given that fixed amount awards make up less than 2 percent of the total value of USAID's assistance awards, it is understandable why a recipient would be unfamiliar with an award of this nature. USAID must explain the parameters of a fixed amount award to recipients early and often, before an award is finalized and throughout implementation. Missions can incorporate these explanations into their outreach and engagement with new and local partners. For example, USAID/Indonesia holds financial management and procurement trainings for its local partners and subrecipients twice per year in the local language. Staff from across the mission discuss award types, including fixed amount awards, and the specifics of working with USAID. Similarly, USAID/Nepal recently undertook a number of roadshows to connect with local organizations and introduce them to the various ways they might work with USAID. Events like these offer exposure to USAID and build a foundation for understanding future awards.

SMART MILESTONE DESIGN IS AN ART, NOT A SCIENCE

There is not one correct way to design milestones and structure payments for fixed amount awards, but interviewees shared that there are ways that almost certainly lead to implementation challenges. As the milestones generally form the basis of the award, it is important to invest the time necessary up front to get it right and reduce time on the back end thanks to easier administration. Key informants offered several considerations that should guide USAID and its partners as they design fixed amount award milestones.

- Aim to create and maintain an ***open dialogue*** with recipients that incorporates broad participation from across the mission, i.e., from A&A, financial management, legal, and technical offices. Encourage and reciprocate honesty and transparency so partners feel they can share questions, ideas, and concerns.
- The ***cost principles are used as a guide***. Ultimately, this is a mindset shift for both USAID and its partners, as both are accustomed to a high level of scrutiny on the allowability, reasonableness, and allocability of proposed and incurred costs. But in fixed amount awards, once the proposed costs have been reviewed in light of the cost principles and the award amount has been set, these detailed regulations do not apply.
- Targets and results in milestones must ***balance ambition and realism***. Fixed amount awards can create an understandable disincentive to be ambitious in goal-setting due to the risk of not getting paid. One possible remedy is to include tiers of milestones for different levels of achievement, i.e., including both comfortable goals and "stretch" goals. USAID can also maintain a recipient's ambition to the end of the award by not front-loading too much of the payments to early milestones.
- Be careful to limit milestones to what is within a recipient's ***manageable control***. While some external factors cannot be foreseen, others are predictable in their unpredictability (a classic example is activities requiring legislative action or other political processes).
- ***Do not dictate how*** milestones must be achieved. By focusing on the ends and not the means, you leave room for innovation and adaptation that is appropriate to a possibly changing context. It also provides a bit of a financial safeguard to recipients as they are trusted to manage their budget in a way to fully recover costs while still reaching specified targets.
- Milestones should be ***easy to verify***, ideally in a binary yes/no fashion. It may be helpful to use outputs as proxies for outcomes to keep things simple. Regardless, the means of verification and documentation required should be discussed between USAID and the recipient as part of milestone development and stated very clearly in the award so that everyone is operating on the same page from the start.
- Seek to strike a ***balance in the number of milestones***. Including very few milestones and payments increases the risk for the recipient by taking an all-or-nothing approach. To mitigate this, activities should be broken down into smaller milestones that will allow for payments for achieving partial results. However, using too many milestones—in an extreme example, one key informant saw 150 in one year—places an unreasonable management burden on both USAID and the recipient.

- Alongside results-based milestones, ***weave in administrative or capacity strengthening milestones*** to support the recipient's cash flow for delivering activities, strengthen their capabilities and systems, and contribute to the organization's long-term goals. By viewing fixed amount awards to new partners as having a dual purpose (results and capacity strengthening), both priorities can be reflected in the award.

LEVERAGE FIXED AMOUNT AWARDS AS A TOOL FOR CAPACITY STRENGTHENING

For fixed amount awards to fully realize their potential in helping USAID reach its localization goals, they must be viewed not only through the pay-for-results lens, but also as a capacity strengthening tool. Seeing fixed amount awards as only one or the other can throw the risk off balance between USAID and recipients. Unlike in acquisition, the principal purpose of assistance is to benefit the recipient to carry out a public purpose. Incorporating this perspective will inform the way fixed amount awards are designed and managed. For example, if an award is approached purely from a pay-for-results standpoint, it would be easy to leave a recipient without payment if they missed their targets. However, this could potentially cause great harm to a local partner, hindering their ability to pay employees or even putting them out of business. Instead, USAID should approach them as a true partner, seeking to understand the factors keeping them from achieving their target and looking for ways to move forward productively together whenever possible.

Fully embracing fixed amount awards for capacity strengthening means applying the principles of USAID's Local Capacity Strengthening Policy by aligning capacity strengthening activities and milestones with local priorities. This is not to say that USAID compliance requirements and risk mitigation measures have no place, but rather that the partner's self-defined priorities should also carry weight.

CONCLUSION

Fixed amount awards are one tool in USAID's toolbox for pursuing global development results and elevating local ownership in sustaining those results. Given their limited usage to date, there is certainly untapped potential—particularly in broadening USAID's partner base and deepening its engagement with local actors—but also room for improved awareness and understanding. As a tool, it is only as good as the way it is designed and implemented. When designed well, fixed amount awards reduce compliance risk for both USAID and its partners and empower recipients to own and shape interventions in pursuit of shared objectives.

ANNEX A: RESOURCES

ADS 303 – Grants and Cooperative Agreements to Non-Governmental Organizations. https://www.usaid.gov/about-us/agency-policy/series-300/303.

ADS 303saj – Fixed Amount Awards to Non-Governmental Organizations. https://www.usaid.gov/about-us/agency-policy/series-300/references-chapter/303saj.

ADS 303mak – Fixed Amount Award Entity Eligibility Checklist. https://www.usaid.gov/about-us/agency-policy/series-300/references-chapter/303mak.

ADS303sam – Non-U.S. Organization Pre-Award Survey (NUPAS) Guidelines. https://www.usaid.gov/about-us/agency-policy/series-300/references-chapter/303sam.

Jack, Samuel, and Jonathan Ng. "Rediscovering Fixed Amount Awards." *Stanford Social Innovation Review*, 2020. https://doi.org/10.48558/SK9J-0J41.

USAID Risk Appetite Statement. https://www.usaid.gov/about-us/agency-policy/series-500/references-chapter/596mad.

USAID Acquisition and Assistance Strategy. https://www.usaid.gov/policy/acquisition-and-assistance-strategy.

USAID Local Capacity Strengthening Policy. https://www.usaid.gov/policy/local-capacity-strengthening.

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