

RELEASE IN  
PART B5

**From:** Mills, Cheryl D <MillsCD@state.gov>  
**Sent:** Monday, September 07, 2009 4:09 PM  
**To:** H  
**Subject:** FW: 2-page memo on contracting/ [REDACTED]  
**Attachments:** Smart-Sourcing Diplomacy and Development 8-31-09.doc

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FYI – I have Caitlin looking at the entire book: see b/l

**From:** Slaughter, Anne-Marie  
**Sent:** Monday, September 07, 2009 12:20 PM  
**To:** Mills, Cheryl D; Sullivan, Jacob J  
**Cc:** Abedin, Huma  
**Subject:** 2-page memo on contracting/ [REDACTED]

Jake and Cheryl,

Allison Stanger is a professor at Middlebury who has a book coming out on contracting – she has spent the last 3 years tracking down more data on the full scope of the contracting problem than anyone else and has done the most sophisticated thinking about what we need to do. She has a book coming out from Yale University Press this fall; the attached 2 pager summarizes her best thinking. She was supposed to brief Jack earlier this summer but it got canceled; I'll have her down to talk to QDDR team. But meantime, given that issue is current right now, I thought S might benefit from reading this.

AM

### **Smart-Sourcing Diplomacy and Development**

While most Americans do not know it, the business of foreign policy is increasingly in private hands. In 2000, the State Department spent \$1.3 billion on contracts and \$102.5 million on grants. By 2008, grant spending had grown to \$2.5 billion and contract spending had grown to \$5.6 billion. In 2000, USAID spent \$0 on grants<sup>[1]</sup> and \$478.6 million on contracts. By 2008, those figures had climbed to \$5.2 billion and \$3.2 billion, respectively (source: USAspending.gov<sup>[2]</sup>). Contracting is still perceived as something peripheral to policy itself, but when contracting and grants comprise 75 percent of State's total budget, as they did in 2008, that is clearly no longer the case.

The privatization trend predates the Bush Administration and is in part an appropriate response to globalization's possibilities and more generally the changing nature of American power. But during the last eight years, laissez-faire outsourcing to execute two ambitious wars carried the day, and oversight and management were often outsourced as well as implementation. Today, the State Department and especially USAID are dependent on contractors, and outsourcing, in turn, has remade the work environment for federal employees. Negative consequences are a private sector that has been granted power without responsibility, a diminished and overtaxed DSS, a demoralized USAID, and looming catastrophe in Iraq and Afghanistan, where reconstruction money first flowed into everyone's pockets except those of ordinary citizens.

### **What is to be done? Smart-sourcing, not in-sourcing**

To align our practices with our interests, the centrality of outsourcing to the contemporary business of government must be properly acknowledged. America's allies today include a range of non-governmental actors, both for-profit and non-profit, who are recipients of taxpayer dollars. While policy was once something that government devised (the "what") and contractors executed (the "how"), that is no longer the case in the

information age. Especially in the development realm, success or failure today turns on the how of US strategy, which effectively places a web of non-governmental personnel in key policy-making positions. Since both development and democracy demand the engagement and employment of local populations, turning the clock back and bringing whatever possible back in house would therefore be a cure worse than the disease. We don't need a new prescription for our glasses; we need a new eye chart.

A smart-sourcing approach defines the "how" of policy as a strategic issue and proceeds on two fronts simultaneously. First, smart-sourcing means building capacity for managing what OMB's July guidelines on contracting call the multi-sector workforce. State Department contracting, programming, and information technology functions must be redefined as collaborative ventures, so that State might more effectively orchestrate mission-oriented networks across the public-private divide. Second, smart-sourcing involves identifying tasks that should never have been outsourced and bringing those back in-house. It may be easiest to in-source according to political expediency, but that temptation must be avoided. Clear guidelines for the limits of outsourcing must be delineated so that strategic rather than ad hoc choices can be made. Both reforms have the virtue of directly advancing objectives outlined in OMB Director Peter Orszag's July memoranda.

More specifically, a State Department committed to smart-sourcing should:

- Support and promote OMB efforts to improve contracts and grants data quality, as well as the further development of USA spending.gov to include subcontracts and subgrants. Transparency and accountability are the critical values in a smart-sourcing orientation, and our anti-corruption efforts abroad will have enhanced credibility when we are perceived to be upholding the same values at home.
- Restructure USAID so that it has the capacity to manage its contracts as well as write checks. Capacity involves more than FTE counts. State needs to recruit, train, and retain a workforce of twenty-first century network managers who can ensure quality work at all stages of a given project.
- Rebuild DSS so that State can phase out reliance on armed contractors in war zones. Our current practices blur the line between the legitimate and illegitimate use of force, which is just what terrorists want.
- Craft contracts that employ the foreigners we are trying to help. Sustainable development follows from the bottom-up engagement of local populations, not top-down advice from US experts. A sense of local ownership is often best fostered by foreign nationals written into contracts and grants rather than being directly employed by the USG.
- Consider the lessons of the MCC and the expanded contributions of the NGO community in charting USAID's future. Both devolve decision-making to the local level and involve a less prominent USG footprint. If organizations like the Clinton Global Initiative and the Gates Foundation advance American interests more effectively than traditional direct government intervention, overseas direct investment may be a dated policy instrument.
- Follow the money and identify DOD reconstruction contracts that rightfully belonged in State's domain to bolster the already compelling argument for greater civilian resources. There can be no smart power without smart-sourcing.

Bottom line: The information revolution has rendered big government vs. small government debates beside the point. To paraphrase President Obama's inaugural address, we don't need a big State Department or a small State Department but a State Department that works. A smart-sourcing approach to reform will strengthen the operational link between policy and resources, enabling State to exploit all the networks at its disposal in ways that advance the interests of the United States. Nothing could be more strategic.

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<sup>[1]</sup> USAID's problematic accounting practices are currently on full public display at [USAspending.gov](http://USAspending.gov). No data on grants is provided for FY2000-2006.

<sup>[2]</sup> Data quality appears extremely variable, especially for USAID, but for general trends, it can suffice. I use 2008 numbers for the comparison, since 2009 aggregate numbers are still a moving target.