

**NEW DIRECTIONS AND BEYOND:  
A REVIEW OF ACCOMPLISHMENTS  
AND AN AGENDA FOR THE FUTURE**

**A Paper Prepared For  
The Congressional Research Service**

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INTRODUCTION

This paper has three primary purposes. The first is to assess efforts by the U.S. Agency for International Development (AID) to implement the "New Directions" legislation enacted by Congress in 1973. Secondly, and following from this, recommendations will be made concerning what should be emphasized in the next few years, assuming that the existing legislation is not altered in any fundamental way. Finally, some suggestions will be offered concerning U.S. bilateral foreign assistance strategies in a slightly longer time horizon. For this last section, the assignment is to assume that foreign assistance monies will decline somewhat in real terms.

Ideally, such an assignment would involve synthesizing the findings from evaluations of on-going AID programs and projects. This leads to the first important point in this paper: a review of existing AID evaluations is not a particularly fruitful way to approach these issues because these issues have not been the focal point of AID evaluations. This statement is not meant as a condemnation of current AID evaluation activities; evaluation work is progressing at the Agency.

However, AID's evaluation work has been primarily sector specific, i.e., rural roads, potable water, health delivery systems, etc. Attention has yet to be given to the broader policy issues.<sup>1/</sup>

Fortunately, other information is accessible that is relevant to the issues at hand. Development Alternatives, Inc. (DAI) has the responsibility for the provision of technical assistance and some procurement for three projects that bear a New Directions design imprint: the North Shaba Maize Production Project (Zaire), the Provincial Area Development Project I (Indonesia), and the Arusha Planning and Village Development Project (Tanzania). DAI has just completed thorough internal assessments of each of these projects, and the author was a member of two evaluation teams (Indonesia and Tanzania). In addition, the author is a member of a team working under contract from the Development Support Bureau of AID to provide short-term technical assistance to on-going integrated rural development projects. The contract also entails research to identify the most serious implementation problems that these projects are facing.

No claim can be made regarding the "representativeness" of this "data base." However, the common pattern of implementation problems that these projects are facing does suggest that some generalizations are warranted.

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<sup>1/</sup> For an elaboration of this point, see Elliott R. Morss.

Perhaps the thorniest task entails distinguishing between problems that derive from the New Directions orientation and those that are associated with all overseas development efforts. For this reason, the assessment section starts by listing the most important new components of the New Directions legislation and assessing progress on each component. Only in the latter part of the section are some of the more general problem areas addressed.

## ASSESSMENT

### New Directions Components

The New Directions legislation entailed a significant departure from earlier foreign assistance efforts.<sup>1/</sup> The major features that set it apart from earlier legislation were the emphases placed on the objective of directly benefiting the rural poor through the mechanisms of:

- The participation of the beneficiary population;
- A basic human needs strategy;
- A small area/village focus; and
- Enhanced attention to the role of women in the development process.

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<sup>1/</sup> This is true despite the fact that similar verbiage can be found in earlier legislation. Foreign aid legislation has always served as a repository for everyone's ideas. What distinguishes the 1973 legislation is the significant change in emphasis that did, in fact, occur.

In the following paragraphs, each component will be briefly described and efforts to date assessed.

### The Rural Poor as the Beneficiary Population

The Congressional directive that the rural poor should become the focal point of U.S. development assistance led to a tremendous amount of writing and discussion of just who the rural poor are. Various qualitative and quantitative yardsticks were developed, but it is clear that nobody with the responsibility for designing and implementing rural development projects wanted to be pinned down to a specific definition of the rural poor. Why is this? In part, it can be explained by a natural bureaucratic resistance to change; partly, also, some AID officials saw it as limiting their options for development initiatives. More importantly, experience suggests that in at least three fundamental ways, having the rural poor as the target population makes development efforts more difficult. Firstly, AID is supposed to work with host country officials to develop projects. Host country officials rarely, if ever, think of development in the narrow framework of increasing the well-being of the rural poor. Indeed, many developing country officials have expressed grave reservations as to whether such a targeted approach will lead to a self-sustaining development dynamic. A few who know something about the history of United States development ask why such an approach to development is approached, when the United States' very successful

growth was of the "robber baron" variety. In sum, the first major roadblock is the reluctance of Third World officials to be convinced of this approach.

We know that, for a host of reasons, effecting meaningful development in Third World countries is difficult. The problems are compounded by excluding that segment of society -- the better-off and/or the more progressive -- from the development initiatives that are promoted. While granting that the poorest segment of society is poorest because of a certain amount of exploitation, it is also the case that selective processes are at work: those on the bottom are there, in part, because of certain traits having to do with an inability or unwillingness to play in the "Western development game." In sum, the point here is that by focusing on the rural poor, one is excluding those groups most interested and able to take advantage of development initiatives.

Finally, there is the problem of village power structures. Even if the central government promotes a project intended to benefit the rural poor, there is no guarantee that village power structures will be sympathetic. It is becoming increasingly clear that New Directions projects, with their orientation to "bottom-up" planning, cannot work at cross purposes with village power structures. To the contrary, the village power structure must, at a minimum, be willing to tolerate

project activities. If such tolerance is not forthcoming, one can expect sabotage. After all, what is of greater importance to a village power structure than maintenance of control over the distribution of assets and income within its village? In reality, what seems to be possible is coming to some sort of tacit or explicit agreement between project officials and village chiefs concerning the distribution of project benefits. For example, the village power structure might agree to direct efforts to help the poorest villagers as long as it controls the distribution of a certain portion of project benefits.

The factors mentioned above are real and must be dealt with; by the same token, the situation is far from hopeless. We are learning more and more about the conditions under which a targeted approach can work and certain techniques can be applied to facilitate success. For example, while anthropologists claim that every social grouping has a hierarchical structure and any development initiative will result in a widening of income disparities, there are, in fact, many areas in developing countries where incomes are so uniformly low that there is no real need to target development benefits to any particular social grouping. Concretely, there are many areas in which average per capita incomes are \$100 or less, with intra-regional ranges of plus or minus \$50. In such circumstances, a reasonable interpretation of the New Directions legislation is that

virtually any development initiative would satisfy the rural poor objective, provided that all the benefits of the initiative did not accrue to a few farmers. Under any development initiative, income disparities are bound to widen inasmuch as it is extremely difficult to design a project that benefits all equally. This is all intended to suggest that extreme interpretations of the legislation should be avoided and that a certain amount of pragmatism is called for.

Arguments for the adoption of the New Directions legislation were quite scarce when it came to documenting the need for a new strategy. That is, while there were a few case studies suggesting that income disparities were widening as a result of "traditional" development approaches, there was no reason to believe these studies were representative of the situation overall. Indeed, it can be argued to the contrary -- that the last 25 years have seen the most rapid growth ever for developing countries and that for the majority of countries, this growth was not accompanied by a widening of income disparities.<sup>1/</sup> This paper will not discuss the longer-term implications of this observation. The important point here is that the New Directions legislation should be interpreted somewhat liberally, inasmuch as it has yet to be demonstrated that there are better development strategies than those employed before the New Directions legislation was adopted.

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<sup>1/</sup> See Morss, op. cit., and David Morawetz, Twenty-Five Years of Economic Development, 1950 to 1975, World Bank publication, Washington, D.C., 1977. For a description of why the New Directions legislation was enacted, see Frank Ballance, "Congress and Foreign Assistance in the 1970s," in process. Carnegie Endowment

## Participation of the Beneficiary Population

Projects designed and implemented by outsiders (central governments, regional governments, or foreign donors) frequently fail in the sense of providing self-sustaining benefits to rural populations.<sup>1/</sup> In principle, then, participation of the rural poor in the generation of project ideas, in committing resources to projects, and in decisionmaking during the implementation stage would seem appropriate. But how is this principle to be implemented? Right now, various approaches are being tried, but nobody has a very clear idea of what should be done and how. To give the reader a concrete sense of what is being tried, the following discussion presents a description of the three projects where DAI has an important implementation role.

### The Arusha Planning and Village Development Project (AP/VDP)

This project is intended to attain two simultaneous goals:

- Increase the planning capabilities of regional and lower-level governments; and
- Identify and implement village level projects.

As designed, the project has seven major components:

- Regional planning activities;
- The planning and implementation of village development projects;

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<sup>1/</sup> E.g., see Elliott R. Morss, Donald R. Mickelwait and Charles F. Sweet, Strategies for Small Farmer Development, Westview Press, Boulder, Colo., 1975.

- The construction of 42 small farm centers and an appropriate technology center;
- The construction of 50 small village storage units;
- The repair and construction of water systems;
- The rehabilitation and extension of road systems; and
- Training activities.

The project started in June 1979. To date, work has focused on the regional plan, the generation of village projects, the rehabilitation of roads, the repair and construction of village potable water systems, and various training activities.

The Project Paper provided for expatriate technical assistance working closely with Tanzanian counterparts in preparing the regional plan. So far, the plan has been developed entirely by the expatriate staff. The lack of involvement of Tanzanians has been largely the result of the fact that no Tanzanian counterparts with planning capacity have been available to work on the plan.

The Project Paper called for village projects to be prepared by villagers. Various approaches are being tried to generate village projects that range from projects emanating out of broadly-based village dialogues through projects generated by district officials serving as village representatives. An assessment of the strengths and weaknesses of projects generated by the different mediums will be made in the near future. In all projects that have been approved, villagers are required to

make a clearly defined resource commitment, and their failure to do so will trigger a stoppage in project monies.

The Project Paper called for the villagers to make a labor commitment to the repair and rehabilitation of roads. This has not happened, largely because priority has been given to the rehabilitation of main region and district roads. However, what happens when attention turns to village feeder roads remains problematic, inasmuch as the expatriate road crew appears to prefer extending and repairing roads at the maximum possible rate, rather than finding ways to make greater use of village labor.

The installation of new potable water systems is proceeding in a manner that involves villagers in site selection and construction of the systems. Villagers are also receiving training in maintaining the systems, and special village committees are being established to supervise the systems.

With regard to training, emphasis is being placed on getting officials to generate ideas from villagers. However, the annual budget cycle is the dominant exercise for government officials, and the tendency is to allocate blueprinted projects among villages rather than taking the time to work up ideas with villagers. Here, a major constraint is the absence of qualified staff and the means of getting to villages (i.e., the shortage of vehicles). There is also "top-down" line ministry pressure to implement their initiatives.

No training is conducted without first surveying trainees

primary interest has been in how to prepare better technical proposals; at the same time, they have expressed skepticism regarding the usefulness of this, inasmuch as they now get their priority projects approved even though they are not technically sound. It is clearly important that their peers (higher-level regional officials) recognize and appreciate technically sound proposals if current training is to be useful in the long-term.

To date, there does not appear to be serious problems in terms of the "rural poor" realizing most of project benefits. This is largely attributable to the fact that the village structure appears to promote equity objectives, even to the detriment of incentives for individual initiatives.

In terms of institutionalizing the participatory practices, steps are now underway to fully integrate village development activities into the annual budget cycle. Thought is being given to making a block request for village development activities so that the evolutionary nature of the process can be maintained.

AID procedures have continued to serve as a barrier to the realization of project goals. The "adequate planning" requirement continues to slow project activities. In addition, a year's delay in obtaining a project amendment has virtually brought offshore procurement to a halt, thereby slowing the project's momentum and raising real questions in the minds

of the Tanzanians concerning AID's ability to deliver on commitments.

### The Provincial Area Development Project I (PDP I)

The primary objective of PDP I is to increase the capability of provincial and lower-level governments to plan and manage projects generated from the villages. Projects are intended to be income-generating, in the areas of agriculture, small industries, and rural credit. The Project is now into the third year.

The objectives of PDP I are quite similar to those of AP/VDP. That is, it calls for the training of government officials in "bottom-up" project generation and implementation, and there are loan monies to support projects so generated. The project operates in two provinces of Indonesia -- Central Java and Aceh -- and different strategies have been used in each province. In Central Java, the emphasis has been placed on training government officials how to generate project ideas from the local levels. In Aceh, initial efforts went to getting income-generating projects underway, with heavy emphasis placed on direct field work with farmers producing irrigated rice. Substantial increases in rice yields have been realized, but relatively little work has been done to train government officials on how to generate project ideas from villagers.

While the project objectives are quite similar to those of AP/VDP, the setting is quite different.

development activities have been highly centralized in Indonesia. Consequently, the project is not yet working with villagers. Instead, it is trying to get lower level government officials to generate development initiatives. Success in this endeavor will be a real step forward inasmuch as to date, lower level governments have been mainly responsible for implementing project initiatives developed by central government line ministries.

Efforts to generate project ideas from villagers have not yet been successful, because villagers are not accustomed to being asked to identify their problems and develop initiatives to deal with them. Another difference is that there is no real budget constraint in Indonesia, and therefore the tendency is for the central government to do everything for the villagers.

Insuring that benefits get to the rural poor is also difficult, since traditionally the village head has sole responsibility for structuring and administering projects in his village area. There appears to be no easy way to override the village head's wishes concerning who benefits from the development initiatives.<sup>1/</sup>

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<sup>1/</sup> In Central Java, however, a recent evaluation indicated that the rural poor were the primary beneficiaries in 55 percent of the first year's projects.

One approach being tried to deal with this problem entails offering forms of technical assistance that would only be of interest to the rural poor. For example, instead of offering technical assistance to help with irrigated rice production, technical assistance will be offered in Aceh to assist those who do not have access to irrigation. Also, attempts will be made to provide large numbers of low value animals, i.e., ducks and goats instead of cows.

Another problem in Indonesia is the tradition of working with the progressive members of society, rather than with the less fortunate. The belief is that a "trickle-down" approach to development will ultimately yield more than efforts to work directly with the poor.

The hope in Indonesia is that if the project can generate successful projects using the "bottom-up" approach, the central government will be impressed enough to incorporate the method into their own system. However, nothing will come of the effort unless positive results can be demonstrated.

With regard to training, a needs assessment was performed that involved input from the potential trainees. The training emphasis went to methods by which lower-level government officials might identify good project ideas. It is still too early in Indonesia to expect villagers to make sensible suggestions for projects in light of the long history of top-down approaches to development.

## The North Shaba Rural Development Project

The primary purpose of this project is to increase the maize production and incomes of small farmers in the North Shaba Province. The approach entails gaining an understanding of current production approaches and improving upon them; however, no new technologies would be promoted until they have been tested on farmers' own lands. There are five major components to the project:

- Agricultural research and extension;
- Development of farmer groups;
- Small farmer credit;
- Rehabilitation of rural roads; and
- Development and production of intermediate technology.

The Project Paper called for the formation of farmer groupings to serve as the focal point for the agricultural and other project activities. As it developed, the organizations were formed before work on agricultural technologies had advanced far enough to offer anything for substantial discussion. As a consequence, discussions in the groups until recently focused on the need for social services.

--- With regard to agriculture research and extension, activities that follow Project Paper guidelines are only now starting. The main reason for this delay was inappropriate expatriate personnel selection and management in the first two years of operation.

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The roads component of the Project Paper asks for and receives "voluntary" labor contributions for work on village roads. The intermediate technology component of the project has brought in prototypes from overseas, and has attempted to promote them among villagers. This has caused some problems -- not enough attention to quality control and the need for supporting services.

Most farmers in the project area are smallholders, and with the major emphasis of the project being increased maize production and income, the small farmers have received the large majority of benefits from the project.

Things should start coming together in the coming year. A meaningful agricultural research/extension effort is now starting and there are some good local farmer groupings established. Hopefully, the macroeconomic and political setting in Zaire will not deteriorate.

### General Lessons

There are several general lessons coming out of preliminary efforts to introduce participatory activities. First, there is the ever present pressure from central government line ministries to promote their development ideas.<sup>1/</sup> For

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<sup>1/</sup> Some things never change. See Stanley Heginbotham, Cultures in Conflict: The Four Faces of Indian Bureaucracy, Columbia University Press, New York, 1975.

them, of course, this is essential for continued power and control. The budget cycle works in their favor; that is, lower-level government wants to maximize resources flowing into their areas, and the line ministry programs are one safe way of maximizing resource inflow.

Secondly, villagers can come up with project ideas, and can make significant resource commitments to projects they believe in, but it is more difficult to get them to think in terms of projects that generate income. In part, this is because they mistakenly tend to believe that the central government will be able to bear the recurrent budget implications of development initiatives.

Thirdly, villagers' perspectives are limited; they are not likely to think beyond what can be done within existing policy and environmental constraints. What this suggests is that village development activities by themselves will rarely make a long-term significant impact unless buttressed by a broader examination of the setting (i.e., regional planning activities). This broader examination should lead to recommendations for infrastructure development and macropolitical changes.

The participatory approach to project development is a revolutionary approach in the sense that it calls for fundamental changes in thinking and it requires fundamental changes in bureaucratic power and authority. As a consequence, institutionalizing the participatory approach in a manner that will

be sustained will take longer than projects are scheduled to last. This is true even after discounting for mistakes made in trying to bring about these changes.

One might ask whether, in light of the problems of implementing the participation concept, it is worth the effort. The answer is a most emphatic yes. There can be no question that top-down planning has serious defects -- that government officials in capital cities responding to the bureaucratic imperatives of their organizations are not in a good position to design meaningful projects for rural villages. To the extent that lower-level government agents, persons who by their physical location are necessarily more responsive to village needs, can be both trained and given the authority to generate project ideas, there is a real chance that the limited resources available to Third World countries can be more effectively utilized.

### Basic Human Needs

The New Directions legislation placed heavy emphasis on satisfying the basic human needs of the rural poor. Under the new legislation, relative emphasis has changed from income generating initiatives to those that provide education, health, nutrition and population planning for the rural poor. Concomitantly, there has been a significant switch in the composition of U.S. technical assistance. From a past emphasis on agriculture, engineering, and economics, the AID program now

places heavier emphasis on the social sciences. The 1980 budget request gives an indication of the relative importance of the different components: \$523 million is requested for nutrition, health, education and population planning; \$675 million is requested for agriculture and rural development.

There are several serious problems with the way in which basic human needs strategies are being implemented. First, there are issues related to the population impact of social service projects. Evidence being generated in research being done by the Research Triangle Institute and the Southeast Consortium for International Development for the Development Support Bureau of AID suggests that the immediate impact of increased health, education and nutrition activities is to significantly increase the population growth rate.<sup>1/</sup>

It is argued that in the longer-term provision of these social services will lead to a reduction in the population growth rate.<sup>2/</sup> This may well be so, but from a policy standpoint, it is critical to know how long it will take to move from the short-term population inducement effect to the longer-term growth reduction situation. Unfortunately, the critical longi-

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<sup>1/</sup>---The Rural Development and Fertility Project, AID Contract No. AID/ta-CA-1. See also Frank L. Mott and Susan H. Mott, "Kenya's Record Population Growth: A Dilemma of Development," Population Bulletin, Vol. 55, No. 5, October 1980.

<sup>2/</sup> E.g., The World Bank, op. cit., pp. 63-70.

tudinal information on this subject is inadequate and inconclusive.<sup>1/</sup> Until more is known, the prudent approach is to make sure that population control activities play an important part in any new social service program.

Secondly, while proponents of basic human needs strategies argue that the longer-term impact will be to increase worker productivity and hence income earning potential, nobody argues that there is any easy way to raise monies to pay the significant recurrent budget requirements of these programs, and there can be no question as to the significance of these recurrent budget requirements.<sup>2/</sup> At present, monies for the development of basic human needs systems are far in excess of what recurrent monies are available to service these systems. To give a specific example of the imbalance of development and recurrent monies for social services, recent studies have concluded that in Tanzania, the rate of breakdown of potable water systems was such that, despite a high rate of installation of new systems, the country was losing ground on its goal of providing improved water to every family in Tanzania by 1991.<sup>3/</sup>

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<sup>1/</sup> For some rather encouraging evidence drawn from the experience of Sri Lanka, see David Morawetz, "Basic Needs Policies and Population Growth," World Development, vol. 6, Nov./Dec. 1978, pp. 1251-1260.

<sup>2/</sup> See S. J. Burki and J. J. C. Voorhoeve, "Global Estimates for Meeting Basic Needs," World Bank Basic Needs Paper No. 1, Washington, D.C. 1977.

<sup>3/</sup> WHO/World Bank Cooperative Programme Report, Second Draft, 1977; Olle Rimer and Associates, "Terms of Reference for an Action Programme in the Water Supply Sector," a report submitted to the Swedish International Development Authority, March 20, 1976.

A final problem with the implementation of the Basic Human Needs Strategy stems from the way AID has organized to provide these programs. Unfortunately, the Agency has chosen to organize in a manner that reflects the line budget items. This means there is a separate group that designs health projects, a separate group that designs population projects, a separate group that designs rural development projects, etc. As a consequence, there are serious problems in coordination; frequently, project groupings do not make sense when taken together.

#### The Area/Village Thrust

While not specified in the legislation, implementation of the New Directions Mandate requires an increased emphasis on small area, village-specific project activities. In part, this is due to a set of practical realities. Given what little we know about how to introduce participation/bottom-up planning, it would be somewhat foolhardy to start by trying to implement a nationwide program. There are also the political realities that need to be considered. Implementation of New Directions, at a minimum, calls for revolutionary changes in thinking and bureaucratic behavior; it cannot be expected that any developing nation will adopt it nationwide without some experimentation.

However, in an assessment of the New Directions approach, one should ask how much can be expected out of this micro-

approach, and is it enough. In Arusha, DAI has had an opportunity to consider this question very carefully. The project paper called for the simultaneous start-up of regional planning activities and the generation of projects from the village level. Among members of the project team, there were real differences as to the relative value of the village development activities and the regional plan activities. People working on the regional plan felt that macroeconomic, political and environmental constraints were so severe that nothing meaningful could be accomplished unless action was taken on these issues. The village-level workers, on the other hand, viewed the regional plan as a paper exercise that would bear little fruit.

The author recently returned from Arusha where the assignment was to review all the papers prepared as part of the regional plan and synthesize them into an action plan for the region. The conclusion, based on this work, was that there are a series of policy and environmental constraints that need to be addressed, and that if these constraints are not addressed, time is being wasted in trying to generate projects from the bottom-up.<sup>1/</sup> This is a strong statement, and it is not appropriate for all developing countries. However, a generalization is possible; to date, efforts to implement the New Directions legislation have given far too little attention

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<sup>1/</sup> Readers interested in the question are urged to read Elliott R. Morss, "Cross-Cutting Issues From The Regional Planning Exercise," November 1980, and draw their own conclusions as to the importance of dealing with these constraints.

to a set of broader issues that constrain what can be achieved; at the very least, strategies can be tailored to work within these constraints; in some cases, it might be possible to generate the arguments and documentation for change.

### Enhanced Attention to the Role of Women

For a series of reasons, past development initiatives have given insufficient attention to the important role played by women in the development process. There can be no question as to the legitimacy of this statement. The problem, as is the case with participation, is to determine what to do operationally with this information. Research has documented that women's roles vary significantly among Third World social groupings (both inter- and intra-country), as do social strictures concerning what roles women can play. Ideally, this information should serve as part of the data base for the design of integrated development initiatives. Unfortunately, this has rarely happened to date. Projects promoting an enhanced (?) role for women have been developed independently and, occasionally, a scathing critique is made of how little attention individual projects give to the role of women. The results have not been particularly useful. Most major AID projects give token attention to this new thrust, while the independently developed women's projects rarely amount to much.

It is time to effect some integration and, just as with the independent population, health and education activities,

it is time that considerations of women were integrated into projects that have an area-specific focus.

### Other Issues Worthy of Comment

#### Timing

As has already been mentioned, implementing the New Directions Mandate calls for a truly revolutionary approach to development. Assuming that change should be brought about through peaceful means, it will take more time to institutionalize the ideas than Congress is presently willing to allow development to last. Congress simply cannot have it both ways: it must either choose to allow projects a longer life, or it should abandon the crucial features of the New Directions legislation.

#### AID's Implementation Performance

The literature has amply documented the fact that in the U.S. political and bureaucratic setting, implementation activities have a lower priority than the development of new programs and projects.<sup>1/</sup> The problem is extreme in AID; extensive discussions with project managers suggest that there is no one in the Agency that really cares about dealing with prob-

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<sup>1/</sup> For general documentation of this point, see Edwin C. Hargrove, The Missing Link: The Study of the Implementation of Social Policy, The Urban Institute, Washington, D.C., 1975; and Jeffrey L. Pressmand and Aaron B. Wildavsky, Implementation, University of California Press, Berkely, 1973; for documentation that is AID-specific, see Donald R. Mickelwait, Charles F. Sweet and Elliott R. Morss, New Directions in Development: A Study of U.S. AID, Westview Press, Boulder, 1979; and U.S. House of Representatives, Committee on Appropriations, Subcommittee on Foreign Operations, Report Accompanying H.R. 7854, Foreign Assistance

lems that are AID's responsibility to resolve. The consequences are unconscionable delays, tremendous frustrations within the American overseas teams, and suspicions of host country officials that AID is not serious in its intentions.

What sorts of problems are encountered? Take the case of project amendments. A critical amendment to a project paper is needed. It is discussed with the host country and AID in-country officials; everyone agrees it is needed. The amendment goes to Washington and, after some delays, there is agreement that the amendment should be adopted. It is sent to the Contracts Office and nothing happens. Nobody in the Contracts Office knows or cares about the amendment; what is more important, nobody in the Agency cares enough to put pressure on the Contracts Office to do its business. As a consequence, enactment of the amendment is held up for more than a year.

Equally troubling is the general attitude AID staff take towards projects; rather than trying to understand and be supportive of what is being tried in the field, most AID bureaucrats assume the posture that their most important job is to insure that projects are performed in a manner that fits with a strictly literal interpretation of the AID legislation/regulations. The following quote from Hargrove aptly describes AID behavior:

... civil servants create an implementation process which is formalistic and deliberately so because it protects them from external threats. The emphasis is upon developing regulations and rules which comply with Congressional intent, meet the demands of affected interest groups and emphasize the process of program administration rather than impact. All of this means that civil servants are far more concerned with legal and administrative processes than with program substance or purpose or with the substantive problems of program implementation.1/

There is some comfort in standing back with Hargrove to get a general understanding of what is happening and why. However, for anyone who wants to see AID programs make a significant impact, the comfort does not last long. One is tormented by such thoughts as:

- How much better it would be if AID staffers saw their roles as ombudsmen for project implementation; and
- What a difference it would make if AID officials were willing to exercise a little imagination and willingness to bear some responsibility for reasonably liberal interpretations of regulations in order to realize project objectives ...

Changes are possible. Incentives for better implementation are needed. In the longer-term, it will be essential for the Agency to develop mechanisms to monitor project implementation to serve as the basis for such initiatives. In the short-term, much progress could be made if AID leadership made it clear that better implementation performance is a top-priority objective. Such assistance could be supported by a limited number of field checks in which project staffs were asked for their opinions of

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AID support.

### The Private Sector

In striking contrast to earlier development approaches, attempts to implement the New Directions Mandate have proceeded largely as if private sector activities do not exist.<sup>1/</sup> There are various reasons to explain why this has happened, but given the private sector orientation of the United States and the private investment resources available, there is no justification for this lack of attention.

### NEXT STEPS

#### Introduction

The purpose of this section is to suggest ways to improve current efforts to implement the New Directions Mandate. Before doing so the importance of continuing the New Directions emphasis for another five years should be stressed. It should be continued, not because the author is a "committed believer," but because it will take five more years to make a reasonable determination as to the efficacy of the various New Directions components.

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<sup>1/</sup> A minor qualification to this assertion is the current interest in small-scale enterprise development.

It took AID two years (1974-1975) to develop preliminary strategies to implement the New Directions Mandate and another two years (1976-1977) for the design and approval of the initial New Directions projects. This means that this is only the third year of experience with those few New Directions projects that started in 1978. Experience suggests that it is still too early to tell what impact projects started in 1978 will have and that another year or so will be required. To gain a reasonable sample of New Directions projects, projects started in later years should also be examined.

Undoubtedly, there will be the usual political pressures to initiate new programs and policies. Hopefully, these pressures can be contained or at least dealt with in a manner that does not subvert the New Directions thrust. It would be a real waste of taxpayers' monies not to give the 1973 legislation a fair trial, and such a trial will take another five years.

A complementary point needs to be made. As mentioned earlier, AID's evaluation activities to date have been sector-specific. If the New Directions "experiment" is to be thoroughly assessed, work to that end should be started immediately. This is not the place to detail what work is required. However, it is worth noting that much could be learned very inexpensively by asking project teams to respond in writing to a set of specific questions concerning their approaches and

achievements in implementing the New Directions Mandate.

In sum, the New Directions approach should be continued another five years. In addition, activities to monitor and evaluate these efforts are needed.

### Participation/Planning

As mentioned earlier, perhaps the best aspect of the New Directions legislation is its emphasis on bottom-up planning and project development. This emphasis should be continued. Also, there is a crying need for an exchange of information on the strengths and weaknesses of various approaches to engender participation in bottom-up planning and project development.

Earlier conclusions suggest that more emphasis should be given to macropolicies and other factors that constrain what can be accomplished through bottom-up planning/project development. It is recommended that monies be available in future projects to both identify and analyze what should be done about these "higher-level" constraints.

### Basic Human Needs

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The social service components of basic human needs strategies should be thoroughly reviewed, with particular attention given to population growth and recurrent budget implications. To minimize the recurrent budget cost, a systematic research program should be initiated to find ways to deliver these services at minimum cost.

## Integration

It has been mentioned earlier that AID's organization reflects sector-specific budget line items. As a result, sector-specific projects have been initiated independent of one another. This is unfortunate, because meaningful development cannot proceed on a sector-specific basis. Consequently, AID should be reorganized so as to insure a greater integration of development activities.

## The AID Bureaucracy

It has been remarked that the AID structure does not reward superior implementation efforts. Here, attention will be given to another staff/organization issue: there are various bureaucratic/organizational manifestations, to suggest that AID is over-staffed. These include:

- Excessively large number of people involved in decisions;
- Much red tape;
- Jealously-guarded fiefdoms, with little inter-fiefdom communications; and
- Large overseas staffs.

A recent study has documented that large numbers of people are involved in reviewing and approving projects with little apparent improvement in projects over the original design. In

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<sup>1/</sup> Mickelwait, et al, op. cit.

this regard, AID can be characterized as a number of fiefdoms, with each fiefdom insisting on having a say in decisionmaking, with little concern for the delay that might result.

That so many people have the time to involve themselves can be a sign of overstaffing; it can also be a sign of bad organization.

Nobody would argue with the contention that frequently, dealing with AID is extremely frustrating because of red tape. AID regulations are lengthy and subject to frequent change. Many AID staffers are simply not familiar enough with the regulations to be effective in their jobs. It can be argued that this red tape is generated by staffers with little else to do writing regulations serves two functions: it employs them currently, and they write in regulatory jobs for themselves in the future.

While AID has its contingent of regulation writers, it is also true that Congress imposes a tremendous number of stipulations on how AID should function.

An outsider is struck by the competition rather than the teamwork that exists within the Agency. Few staffers would argue with the contention that development activities should be integrated, but very little integrated development work actually occurs in AID. Staffers appear to be more upset about being excluded from a meeting than about not having the time to attend

meetings. Missions go to great lengths to keep AID/Washington from visiting their countries. Negotiations about field visits consume tremendous amounts of staff time and cable traffic.

Such fiefdom activities and competition might be a manifestation of too few activities for the available staff. Whatever its cause, there is a lot of wasted motion that occurs.

Overseas, one is struck by the tremendous size of the AID bureaucracies relative to other donors. To take one example, the AID mission in Tanzania, supporting a program of about \$20 million annually, has a staff of 25 direct-hire Americans and 22 direct-hire foreign nationals. In contrast, the World Bank and the Swedish aid agency each have two permanent professionals to support programs that are each in excess of \$90 million annually. Certainly the World Bank and the Swedes draw heavily on short-term technical assistance, and it could be argued that the AID mission is administering its program more effectively than the World Bank or Sweden. Evidence to support this argument is not readily apparent.

Table 1 provides some interesting comparative information on AID staffing patterns. As can be seen from columns 7 and 8, there is a wide variance in administrative support across geographic regions. Personal observation does not suggest greater administrative inadequacies in Asia than in Africa, even though program outlays per U.S. employee are five times higher in Asia than in Africa.

Table 1 is also interesting in suggesting that the argument for significant cutbacks in AID employees cannot be made on grounds of direct cost savings. For example, a 50 percent across-the-board reduction in force would probably save less than \$50 million annually. The real savings from such a cutback should come in the form of a reduction in red tape, paperwork, and the accompanying decision delays.

What has been said in the above paragraphs is not intended to document the assertion that the Agency is overstaffed. Rather, it is intended to serve as a prod for some constructive, analytical thinking on the subject. However, one thing is certain. New incentives are needed to dispel the perception and the reality that AID staffers don't care about project implementation problems.

Table 1

SELECTED PROGRAM AND PERSONNEL STATISTICS  
U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT, 1980

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Location	Full-Time, Permanent Employees		Operating Expenses (in millions)	Operating Expenses Per Employee <sup>1/</sup>	AID Program (In Pipeline 9/30/78) <sup>2/</sup> (in millions)	Program Outlays Per U. S. Employee (6)/(2)	Operating Expenses As % Of Program Out (3)/(5)
	U.S.	Nationals					
Lynton	2,180	-	\$104.6	\$47,982	NA	NA	NA
	530	441	62.0	98,875	\$ 507.3	\$ 957,170	12.2%
	336	614	33.7	68,776	814.9	4,949,000	4.1
America	332	596	38.2	79,418	721.6	2,173,000	5.3
ast	252	341	29.8	88,427	2,624.4	10,414,000	1.1

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U. S. Senate, Committee on Appropriations, Hearings on Foreign Assistance and Related Programs Appropriations, Fiscal Year 1980, Part 2, pp. 27-33.

Foreign national given 25% weight U.S. employee for this calculation, i.e., (5) = (4) divided (2) plus .25 (3).

cludes Security Assistance.

: applicable.

Introduction

In this section, an attempt will be made to think more broadly about what America's foreign assistance strategies should be. The discussion will neither be limited to, nor exclude, New Directions approaches. For this section, the assignment is to assume a downward trend in U.S. bilateral assistance monies.

Once again, it is important to state what information would be useful to have for this assignment. An assessment of the New Directions efforts would clearly be useful, but a broader picture of international financial functions would also seem relevant. The relevance of future work for policy is not widely appreciated in this country and consequently the data needed are not available.

This section will build upon a projection of the assessments presented in the earlier sections and an admittedly simple-minded projection of international financial futures.

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1/ Things are changing. For examples of two policy-relevant futures papers, the following is recommended: U. S. Department of Agriculture, Food Problems and Prospects in Sub-Saharan Africa: The Decade of the 1980s, Washington, D.C., 1980, and Walter J. Levy, "Oil and the Decline of the West," Foreign Affairs, Sept. 1980, pp. 999-1015.

## International Financial Futures<sup>1/</sup>

Table 2 provides some relevant information on the international situation in 1980. While estimates of private capital flows might be somewhat inaccurate, it is still true that private flows are significantly greater than public flows.

Table 2

### NET CAPITAL FLOWS TO DEVELOPING COUNTRIES IN 1980 (in billions of dollars)

Private Flows	<u>45.6</u>
● Loans	35.6
● Direct Foreign Investment	10.0
Public Flows	<u>29.0</u>
● Concessionary	20.7
● Loans at Commercial Rates	8.3

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Source: The World Bank, World Development Report, 1980, Washington, D. C., 1980, p. 9, Figure 2.5.

In 1978, the second major round of oil price increases started. The impact of these price hikes was to increase the oil import bill to non-OPEC developing countries from \$33 billion

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<sup>1/</sup> Information for this exercise comes largely from a panel session of the First Global Conference on the Future, chaired by the author last July in Toronto. Valuable contributions to that panel were made by Jean Baneth of the World Bank, Andrew Gantt of the International Monetary Fund and James Thornblade of the First National Bank of Boston. In addition, the work of William Cline of the Brookings Institution, Professor Philip A. Wellons of Harvard Business School and Thomas H. Hanley of Salomon Brothers have proven valuable for this work.

in 1978 to \$66 billion in 1980, and price increases continue. The significance of these price hikes is apparent when viewed against total public and private financial flows to developing countries estimated at \$74.6 billion in 1980.

Overall, it is estimated that the OPEC countries will incur annual current account surpluses in excess of \$100 billion in 1980 and beyond. What is being done with this money? A small fraction of it (\$5 - \$10 billion annually) will go into foreign assistance, and an equivalent amount will be funneled to developing countries through oil price concessions. Also, some money will be invested directly by OPEC countries. However -- and this is the important point -- the bulk of these surpluses will be given to international commercial banks to invest. What do we know about these commercial banks? First, their performance following the liquidity bulge resulting from the 1973-1974 oil price escalation suggests they have a lot to learn about lending to developing countries. The performance of the American banks was such that the Comptroller of the Currency felt impelled to warn the banks against greater exposure in certain countries; the matter has not escaped the attention of the Board of Governors of the Federal Reserve System.<sup>1/</sup>

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<sup>1/</sup> See Paul A. Volcker, "The Recycling Problem Revisited," remarks before The Graduate School of Business Administration, New York University, March 1, 1980, and Henry C. Wallich, "The Future Role of the Commercial Banks," presented at the Conference on New Approaches and Techniques for Managing Country Risk, New York City, January 24, 1980.

Secondly, commercial banks want to avoid loan defaults at all costs. This is because defaults must be registered on their balance sheets, reduce recorded growth rates, and give the impression of poor management. The implications of this are that those developing countries that already have large loans from the commercial banking sector have little to worry about; they will get additional commitments in the form of debt rollovers and debt moratoriums.

Finally, so long as oil exporters continue to record large current account surpluses, the commercial banking sector will continue to receive far more money than they know how to place effectively.

What does all of this say about future financial flows to developing nations? First, we need not be too concerned about countries that have already received large loans from banks, such as Brazil, Mexico and South Korea. The banks will take care of them. For the rest of the developing world, things are not so hopeful. Having been criticized for their loans to developing countries following the first oil price increase, the banks are going to look far more critically at new loan prospects than they have in the past. And clearly, the continuing escalation in oil prices is making non-OPEC developing nations look increasingly risky as loan prospects. Fortunately, there is a countervailing force at work: the banks will continue to get large sums from oil exporting nations to invest.

What, if anything, does all this suggest for future U.S. foreign assistance strategies? Since the banks have more money than they know how to invest effectively, there should be some way the U.S. foreign assistance program could "leverage" these monies into effective investments in the neediest developing nations. Several things might be tried. The U.S. government might offer to pay certain firms with extensive experience in these countries to undertake project feasibility studies under commercial bank supervision. The U.S. government might also offer to guarantee certain bank loans. Finally, the U.S. government might support, with technical assistance and capital, the formation, improvement and expansion of development banks/corporations in these countries. Existing organizational models, such as the Commonwealth Development Corporation, should be examined. The purpose of all these activities would be to attract a significant portion of commercial bank deposits to sound investment opportunities in the "less-favored" developing nations.<sup>1/</sup>

At this point, a realist/skeptic might ask: what reason is there to think such an approach would work when past govern-

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<sup>1/</sup> -- A somewhat different approach involves providing incentives for oil-exporting countries to make increased direct investments in developing countries. (See William R. Cline, "External Deficits and Recycling for Developing Countries," a paper prepared for the Society for International Development Conference on Development Policy Choices for the 1980's, Washington, D.C., May 1980.)

ment promotion activities have failed so miserably? Several things can be said in response. First, conditions have changed dramatically in recent years. The oil price increases have resulted in unprecedented bank liquidity. One should not be misled by high interest rates. The banks are overwhelmed by the amounts of money they are being given to invest.

Even so, it is unlikely that such initiatives would succeed unless business professionals -- not civil servants, development professionals or foreign service officers -- serve as the core of the government "promotion" team. And finally, the recommended activities should not be initiated unless they have the enthusiastic support of the banking community.

#### Another Leverage Possibility

If the amounts available for American foreign assistance are to decline in the future, it is essential to think of more effective ways to leverage these funds than has occurred in the past. The recommendations made above would do just that. By the same token, this is hardly the time for anyone committed to development to take "a holier than thou" attitude towards Security Supporting Assistance. The United States has a wide range of foreign policy objectives and, to the extent that some of the Security Support monies can be programmed for meaningful development, so much the better. Incidentally, Security Support monies have one decided advantage: their

use is not subject to the red tape and regulations of regular AID monies.

### The Importance of Selectivity

If foreign aid monies are to decline in the future, it is critical that they be used more selectively, both in terms of how the monies are used and where. These topics are discussed separately in the following paragraphs.

#### Where The Monies Are Used

The number of countries receiving foreign assistance should be reduced. Foreign policy considerations will (and should) continue to play an important role in determining what countries will receive foreign aid. However, development criteria are suggested below that might be employed to exclude countries from foreign assistance.

At the top of the list would be nonsensical macroeconomic policies. For example, per capita food production has fallen off in many African countries in the last decade.<sup>1/</sup> While there were various reasons for this, a primary factor in a number of countries was low producer prices. There is little hope that foreign assistance will have a long-term beneficial impact when governments hold producer prices at, or below, the costs of production.

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<sup>1/</sup> See U. S. Department of Agriculture, op. cit.

Producer prices are frequently held down because governments do not want to antagonize the politically important urban elites through escalating food prices. In such circumstances, the U.S. AID is often asked to subsidize agricultural production. The total effect of these policies is to:

- Distort the real costs of farm inputs;
- Discourage agriculture production;
- Provide food to urban dwellers at prices lower than production costs; and
- Build in a dependency on foreign assistance.

American aid should not contribute to such absurdities.

Another criterion for U.S. aid should be the role played by the government in the economy. The issue here should not be ideological; rather, it should be the pragmatic question of whether excessive government regulation, red tape and/or corruption is likely to thwart any attempt at meaningful development.

Other criteria should be considered. The important point is that if foreign aid monies are to be reduced, there is no point perpetuating programs in countries where policies discourage meaningful development efforts.

#### How The Monies Are Used

Two observations can be made:

- Many different activities will be needed if Third World countries are to develop in a manner

- Unlike the situation 30 years ago, there are many organizations offering various types of development assistance.

With regard to U.S. bilateral aid, one possibility would be to support all of the activities needed for development. A second approach, and one that is preferable, is for U.S. bilateral assistance to support a limited number of activities. How might one determine what activities to support? First, make a list of all activities critical for development. Second, determine which activities are being adequately provided and which are not. Finally, make an assessment of what U.S. bilateral assistance:

- Is most capable of providing;
- Should be provided, given the U.S. historical orientation; and
- Should be provided, given the shortcomings in existing programs.

Conducting an exercise of this sort would be extremely valuable as a way of providing a perspective on what future U.S. bilateral assistance strategies should cover. Critical to such an exercise would be an assessment of New Directions efforts and, as has been repeatedly mentioned, it is time for such assessment activities to begin.

## EPILOGUE

By looking at the immediate past and probable immediate future U.S. balance of payments deficits, one can seriously question whether our country should remain in the foreign assistance business. While this point is arguable, it is also relevant to take a longer view and ask what the situation will be ten to fifteen years from now. Not much work has been done on this subject, but things will probably appear far less hopeless than they do today. World reliance on American food exports is growing, and once oil prices reflect their true opportunity costs, American industry will probably assume the lead in developing energy substitutes for oil.

Such futures work is desperately needed, if for no other reason than to clarify our longer-term policy options. In the meantime, policies to leverage accumulating oil surpluses recommended in the preceding discussion should be pursued, along with a continual testing of the New Directions legislation.