

Draft Plan for Expansion of the
A.I.D. Program with Stable or
Reduced Staff Ceiling

(Alex Shakow - July 25, 1979)

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

PLANNING OFFICE

WASHINGTON, D. C. 20523

July 24, 1979

PIN-1114-196

MEMORANDUM TO: Mr. Edward R. Jayne
Associate Director
National Security and International Affairs
Office of Management and Budget

Randy

As we have discussed, one of IDCA's major tasks is to insure that A.I.D. can manage an effective and efficient bilateral assistance program with substantially increased resources over future years, preferably with reductions in personnel. To a significant degree, the success of our budget presentation this fall will depend upon our ability to make that case.

To this end, the IDCA Planning Office has been working with A.I.D. on a number of fronts. One is outlined in the enclosed memorandum from A.I.D. It discusses in some detail an A.I.D. plan that could, we believe, help to strengthen our bilateral assistance program and, at the same time, let A.I.D. operate with substantially fewer employees -- a reduction of 500 or more by 1983.

This memorandum focuses on A.I.D.'s field operations and calls for a structuring of those operations that will enable a number of programmatic changes. A complementary plan will be prepared by A.I.D. for the Washington operations, and we will be in a position before the budget review to report on that phase of our efforts.

I have discussed the memorandum at some length with Mr. Bennet, who is in full agreement with the thrust of the paper. At this stage it is a working hypothesis, and we will be most grateful for the informal comments of you and your colleagues. We will also be seeking comments from a variety of other interested persons within and outside A.I.D. Our overall aim, of course, is to design the strongest possible bilateral assistance program.

We look forward to your comments.



Thomas Ehrlich

Enclosure

cc: Henry Owen

AA/SER Mr. Macdonald

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

ASSISTANT
ADMINISTRATOR

July 25, 1979

MEMORANDUM TO THE EXECUTIVE STAFF

If bilateral assistance levels are to increase substantially over the next few years, we must demonstrate that A.I.D. is prepared to get meaningful results from additional funds and do it at today's staffing level or even with somewhat fewer positions.

On this basis, Tom Ehrlich of the IDCA Planning Office asked for a draft plan for expansion of the A.I.D. program with stable or reduced staff ceiling. Allison Herrick drafted the enclosed plan after extensive consultation with Tom, Doug Bennet, me, and many others. Tom and Doug consider the basic thrust of the plan to be a sound working hypothesis for our future operations.

The purpose of the plan is not to produce a wholesale change in the A.I.D. program or cause yet another reorganization of the Agency, but rather to set some directions toward which we might begin moving on a substantial but experimental basis with the FY 1981 budget. While time is very short, we would like to have your preliminary reactions during our budget reviews on how the program outlined might be undertaken in your area. Beyond that I would like your comments on the attached paper by Wednesday, August 1. If it seems useful, we will schedule a separate meeting next week with Tom and Doug to discuss the issues raised by the paper.

Alex Shakow

Alexander Shakow
Assistant Administrator
for Program and Policy

Attachment

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

A Draft Plan for Expansion of the A.I.D. Program with Stable or Reduced Staff Ceiling

Most U.S. bilateral assistance now reaches recipient countries through a relatively uniform system -- projects devised and supervised by A.I.D. field missions. With the number of other donors increasing, the private sector more active in development-related efforts, and developing countries increasingly affected by fluctuations in the world economy, A.I.D. may need a variety of approaches if it is to get maximum impact from assistance commitments and capitalize on the comparative advantages of its particular approach.

Without an abrupt change in the A.I.D. program, we can begin building in FY 1981 toward an assistance format which not only enhances A.I.D.'s flexibility but enables us to handle substantially larger amounts of funding with fewer personnel.

The plan laid out below is intended to ensure that A.I.D. can carry out an effective program, at more than twice today's level by 1983, fulfilling its mandate to contribute to basic human needs and emphasizing poor people in poor countries where governments are committed to help the poor and have a good human rights record.* A.I.D. would continue to maintain in-country staff in most recipient countries, take the lead in selected innovative approaches and seek to help countries develop their own capacities to manage their own and external resources for purposes of development but would focus more on particular countries or particular sectors in certain countries.

We believe this plan will satisfy OMB's concern as to whether A.I.D. can handle growing budget levels with fewer people, and also respond to Congressional concerns about A.I.D.'s efficiency.

A.I.D. is proposing to operate an expanded Development Assistance program, of up to \$2.036 billion in FY 1981 and more in future years, with a full time staff that is reduced from 5760 by at least 170, and possibly 730, positions. The target for 1983, approved for planning purposes by the President last December, is \$3.2 billion, and for 1985, \$4.5 billion. Most A.I.D. program managers have requested increases in position levels for 1981 (a net total of some 300 positions overseas and 250 in Washington). Thus requests exceed the current ceiling by about 10% after transfers to IDCA and ISTC.

AID/W Organizations would:

- provide policy guidance and oversight of evaluation,
- provide direct technical advice and services to missions,
- selectively obtain services for field activities through grants, contracts, and core support agreements with other agencies,
- advise ISTC and other institutions on development problems that require research,
- select or create intermediaries to carry out development activities financed by funds from A.I.D. and their own resources, and
- manage regionally oriented activities that are not as practically managed in the field.

Programs would be one of four types by 1985 as follows:

Type I: Programs carried out by PVOs and other intermediaries, partially financed by but not designed or specifically approved by A.I.D. In countries where today's relatively small programs have little general impact on growth and development. Information on the general magnitude and types of programs would be maintained in Washington or an A.I.D. regional office. U.S. staff of 0-3. *← AID/W??* *NC!*

NOTE: If it is the interest of the United States to ensure a program of a certain size or maintain a direct bilateral relationship with the government of any Type I recipient, A.I.D. could encourage selected intermediaries to work in that country and a number of intermediary activities could be covered by a bilateral agreement (somewhat on the model of the co-financing agreement used in Indonesia).

Example: Benin, South Pacific, Chile

Type II: Program of from \$5-15 million at 1981 levels, consisting of projects in no more than two functional sectors at one time (population planning in combination with health activities would be considered a single sector). In countries that can benefit from development projects and do not need, or are not yet capable of implementing, large sector programs. U.S. staff 5-10. *← AID/W? NS!*

Example: Liberia, Rwanda, El Salvador

Type III: Project-oriented programs of \$10 million and up in 1981 and subsequent years, more or less in the current A.I.D. style, gradually to be consolidated around a limited number of sectors. In countries where the United States desires to commit a higher level of resources and in which the participation of A.I.D. staff makes a demonstrable difference in program effectiveness. Staff of varying size depending on the relative consolidation of the program.

Example: Somalia, Mali, Indonesia, Bolivia

Type IV: Larger programs to provide broad financial support to one or two sectors, with substantial obligations made periodically to assist up to five years of country effort. Staff to be limited to 8-15.

Example: Kenya, Sri Lanka, Honduras

(See attachment for illustrative criteria for and characteristics of program types.)

The Indicative Planning Allocation system would determine indicative levels for countries of Type II, III, and IV.

The presumption is that Type III, which represents the current mode of operation, will occur progressively less frequently (in 44 countries in 1979, 24 in 1983 and 20 in 1985). In the future, countries that have qualified for limited direct project assistance (Type II) and show promise for benefiting from and being able to manage larger financial transfers could make the transition to a multiyear major sectoral assistance program (Type IV).

N.B. // Consultants have advised, and many A.I.D. managers have proposed, that significant personnel efficiencies could be achieved by eliminating small projects from mission programs (there is no significant difference in the amount of time and effort applied to design, review and approval of small and large projects) and by fully funding every project at the time of the initial obligation (thus eliminating annual review, justification and negotiation). This plan therefore proposes a minimum life-of-project cost of \$5 million and full obligation at the start of the project, assuming that more modest efforts could be handled by intermediaries. A few exceptions to the minimum cost may prove to be compelling; among these may be feasibility and design studies and pilot or control cases upon which a later decision to fund a major project would depend.

Most current operating principles of A.I.D. are preserved by this plan.

- It does not recommend that A.I.D. become strictly a provider of foreign exchange or that it seek financial return on its development investments.
- It does not propose a change in the Congressionally mandated effort of A.I.D. to implement Security Supporting Assistance programs emphasizing as much as possible their effort on basic human needs.
- It does not preclude a bilateral assistance relationship in any country for which such a relationship is deemed to be important to foreign policy.
- It does not propose a reorientation to emphasize, through line of authority, functional sectors over geographic regions.
- It does not recommend that the U.S. Government adopt the donor model of the World Bank or other major bilateral donors.

The plan assumes overall reductions in staff size and relative skills mix of personnel, but does not suggest specific structural changes within AID/W to reorder the functional division of responsibility. We will consider such structure changes as we begin to implement the plan.

The draft plan rests on some assumptions:

- that we will not seek amendment of the policy and basic authority set forth in Part I of the Foreign Assistance Act for Development Assistance;
- that the A.I.D. program will continue to emphasize assistance to poor countries committed to help their poor people participate equitably in the benefits of development;
- that economic growth is a necessary ingredient of and precondition for equitable provision of basic human needs;
- that A.I.D. can be less directly involved in program management than it is now and still manage public funds with due regard for the need to demonstrate their effectiveness;
- that A.I.D.'s project-oriented approach implemented by relatively large in-country staff is not appropriate to all U.S. purposes or most effective in all country circumstances;
- that intermediaries, including Private Voluntary Organizations, can be more extensively used to support U.S. development interests and initiate innovative programs;

- that a number of possible procedural changes can reduce the personnel intensity of the conduct of A.I.D. and are advisable in any case to improve management;
- that the repeatedly identified procedural bottlenecks characteristic of current practices will not be eliminated until staff levels, especially those in Washington, are significantly cut, and
- that changes in the skills mix of A.I.D. personnel can be achieved without a reduction-in-force.

Allocation of Staff Ceiling

The effects of the plan would be to:

- eliminate direct hire staffs assigned to Type I countries by assigning responsibility to regional offices or regional bureaus in Washington or, at least, reduce each staff to 0 to 3 persons (no more than two professionals) attached to the Embassy;
- reduce U.S. staff levels in Type II countries to 5-10, in Type IV countries to 8-15, and in Type III countries to those necessary for operation in a limited number of sectors by 1983;
- reduce the need for foreign national staff engaged in support functions;
- transfer some specific functional sector experts, e.g., in agronomy, veterinary medicine, tropical diseases, from field missions to Washington to serve on central or regional technical resource staffs;
- increase the number of high caliber personnel with broad skills in economics, social analysis, general development planning and functional sector planning in the field.

In addition, to the extent that it would not increase long term costs and would improve efficiency, relatively large direct hire foreign national staffs could be partially converted to contract status.

The effect on total staff size and distribution would be determined by conclusions on the need for technical expertise and evaluation and audit functions in Washington, the extent to which foreign national staff is reduced, efficiencies resulting from procedural changes, and the pace of conversion of skills mix. A preliminary estimate indicates that a net reduction of close to 200 U.S. direct hire positions overseas (assuming project managers for old projects are no longer needed) and 250 positions in Washington could be achieved by 1983 or 1984.

Handwritten notes: "1983", "1984", "ACTION", and question marks.

Handwritten notes: "DIRECT HIRE", "NOT ABSOLUTE", and "A".

Handwritten notes: "1983", "1984", "ACTION", and "MAYBE TO BE CONSIDERED".

Handwritten notes: "1983", "1984", "ACTION", and "MAYBE TO BE CONSIDERED".

Potential Issues

1. A common view in A.I.D., held mainly by line managers, is that major changes in the manner of operation are not needed.

Elements of this view are that: the program increase for 1981 is minimal in nominal terms and negligible in real terms; at least \$200 million more is needed in 1981 to fund projects squeezed out of the budget in 1979 and 1980; steady expansion is possible by simply increasing the size of projects; the financing of infrastructure (which the Agency has done little of in recent years) will absorb large sums:

At annual rates of inflation of 10%, the nominal increases of 42% and 132% respectively in 1981 and 1983 over the 1979 level now being implemented are only 8% and 71%. Inflation is, of course, a mitigating factor only if the average size of project obligations is also increased by at least the rate of inflation. In the 1981 budget requests, the average funding for each project is higher for 1981 than for 1979. Yet 57% of new projects proposed are for less than \$5 million each and these together account for only 14% of the budget.

While the addition of projects from the "shelf" and participation in multidor infrastructure projects could indeed account for the total increase in program in 1981 and possibly 1982, such additions would impose increasing strains on staff stemming from the Agency's projected-oriented approach and current project management pipeline.

2. Some in A.I.D. may be concerned that it may be more vulnerable to GAO, Congressional Committees and public criticism if its direct monitoring role in project management is diminished.

Reduction in U.S. direct hire staff overseas in accordance with this plan will have to be accompanied by devolution of increased responsibility for implementation, monitoring, and evaluation to contractors (contracted either to A.I.D. or, preferably, to the host country) or to the host country itself.

Unless staffing constraints force the change, it will be difficult for many A.I.D. project managers to recognize that a contractor or government will adequately implement a project if it does not monitor as carefully as they would have.

The degree to which current A.I.D. practices are required by law and Federal regulation or have been created and imposed by A.I.D. itself in response to audit recommendations, Congressional criticism and conservative legal interpretation will have to be analyzed.

A.I.D. will have to recognize that effectiveness can satisfactorily be measured in terms of the broader objectives of an activity, e.g., that if the government alters a policy, establishes an institution, increases inter-ministerial coordination or funds a program not previously in the budget, effectuation of such steps may be the most important objective of the A.I.D. activity. And in so recognizing A.I.D. will have to be prepared to explain and defend its effectiveness to itself and its critics.

Similarly, the effectiveness of intermediary programs will have to be measured, a priori, by analysis of the management capacity, fiscal responsibility and commitment of resources to development activities and, post hoc, by periodic evaluation of the work that is partially funded by A.I.D.

3. Expanded use of contractors to implement, monitor and evaluate projects and programs or to replace direct hire foreign nationals may cost more.

Although some increase in the use of contractors for monitoring and evaluation can be anticipated, change in the style of A.I.D. involvement would place more of that responsibility upon the recipient country or implementing organization.

Analysis of the relative costs of project management by A.I.D. direct hire staff and by contractors has never been brought to a satisfactory conclusion partly because it has been difficult to define comparative costs of overhead. The facts are sufficiently controversial to suggest that constraint on staff size should be the overriding factor in a decision on functions to be relegated to contractors.

Conversion of functions carried out by foreign nationals to contract status, however, could involve increased financial costs--on a one-time basis if costs to separate employees are high and, depending on the situation, on a continuing basis if contractor overhead is more costly than the attributed overhead and benefits provided to a direct hire employee.

Other costs may be incurred, again depending on the situation, if staff continuity and employee loyalty are affected by a change to contract basis. On the other hand, a mission may be able to attract skills that it cannot now pay for under the compensation classification system of the Department of State which governs salaries paid to foreign national employees.

4. The practice of periodic multiyear funding for the larger programs of A.I.D. raises the question whether it would be acceptable to countries to receive a commitment of funds in some years and no new U.S. commitments in other years.

This issue is more likely to be raised by a U.S. Ambassador to a country than by the country itself because the "lumpiness" will occur in commitments but not in disbursements, which represent, after all, the actual transfer of resources.

5. By reducing the size of its field missions A.I.D. may not be able to play as important a role as in the past in certain areas in which A.I.D. has shown a comparative advantage among official bilateral and multilateral donors:

A.I.D. has been unique in having a field staff who can identify and support progressive and reform-minded elements within both the government and the private sector.

The staff has helped to build local constituencies in support of new and innovative approaches to the problems of development.

Close and frequent contact between local leadership and U.S. project designers and managers has often been the critical ingredient in a successful institution-building project.

The field staff has been able to maintain the very close working relationships with host officials that have enabled it to analyze and adapt to changing circumstances affecting implementation of programs.

6. Benefits to poor people will be less directly measurable in larger programs in which A.I.D.-direct hire staff are less directly involved.

It will be incumbent upon A.I.D. to analyze the medium and longer term benefits expected from the programs and selectively to evaluate intermediary and government programs in order to identify problems and needed corrections.

7. If A.I.D. is not to be directly managing smaller and innovative activities that are of special interest to some members of Congress (in the general arenas of women in development, natural resource conservation, appropriate technology, etc.) It may want to ensure that intermediaries to carry out such activities exist and are capable of executing them.

Proposed A.I.D. Country Program Types

<u>Type</u>	<u>Criteria or Indicators of Appropriateness for the Program Type</u>	<u>Characteristics of the Program</u>	<u>Size of Program in \$ millions</u>	<u>Size of U.S. Direct Hire Staff</u>
I	<p>Relatively small program size not immediately amenable to expansion.</p> <p>Activities are typically small scale with short run objectives and limited impact on country growth & development.</p> <p>Human rights or commitment problems militate against official assistance reaching the poor.</p> <p>U.S. does not have irreplaceable in-country expertise resulting in unusual program effectiveness.</p>	<p>Intermediary programs only.</p> <p>Bilateral agreement possible but not necessary.</p> <p>Indicative planning allocation not applicable.</p>	n/a	0-3
II	<p>Size or location make the country relatively less important to U.S. foreign policy objectives.</p> <p>Middle income country needs technical assistance to help solve critical problems.</p> <p>Country not ready or capable of implementing larger sector programs.</p> <p>A.I.D. assistance does not exceed \$15m in 1981, though it may in later years.</p>	<p>Limited to 2 sectors</p> <p>Projects which, while not explicitly part of an overall development strategy, can be critical in promoting growth and BHN.</p> <p>Intermediary programs not through A.I.D. missions.</p>	5-15	5-10

Proposed A.I.D. Country Program Types Continued

<u>Type</u>	<u>Criteria or Indicators of Appropriateness for the Program Type</u>	<u>Characteristics of the Program</u>	<u>Size of Program in \$ millions</u>	<u>Size of U.S. Direct Hire Staff</u>
III	<p>Current program covers more than 2 sectors.</p> <p>Country is among larger Sahel countries.</p> <p>Country not ready or capable of implementing larger sector programs.</p> <p>Status of country commitment is such that a demonstration approach with direct U.S. involvement is most effective.</p>	<p>Gradual reduction to 3 sectors</p> <p>Consists mainly of projects but can include sector programs.</p> <p>Intermediary programs not through A.I.D. missions.</p>	15+	10-55
IV	<p>Country has or will initiate a sector development plan consistent with A.I.D. objectives to meet basic human needs.</p> <p>Country has institutional capacity to development and implement sector plans.</p> <p>Country's broad development strategy is aimed at growth with equity.</p> <p>Country is undertaking broad structural reforms.</p> <p>Need for external assistance to finance reforms or expansion of programs.</p>	<p>Multi-year obligations.</p> <p>Sectoral or cross sectoral orientation.</p> <p>Possibly broader, development plan orientation.</p> <p>Policy change or program commitment by country required.</p> <p>Intermediary programs not through A.I.D. missions.</p>	20+	8-15

Country Programs by Proposed Type

Illustrative

TYPE	<u>1979</u>	<u>1981</u>	<u>1983</u>	<u>1985</u>
# I				
No. Countries	5	12	12	12
Program, \$ millions	4	38	47	84
U.S. Positions	12	10	4	34
# II				
No. Countries	8	8	10	10
Program, \$ millions	22	56	129	162
U.S. Positions	33	61	89	81
# III				
No. Countries	44	35	24	20
Program, \$ millions	778	923	1,127	1,270
U.S. Positions	977	843	559	482
# IV				
No. Countries	-	5	13	17
Program, \$ millions	-	300	850	1,556
U.S. Positions	-	67	187	209
Total				
No. Countries	57	60	59	59
Programs, \$ millions	803	1,317	2,153	3,072
U.S. Positions	1,022	981	839	775

memorandum

DATE: July 30, 1979

REPLY TO
ATTN OF: AAA/PPC/E, Robert J. Berg 

SUBJECT: Jumping Off The Deep End: II

TO: AA/PPC, Mr. Alexander Shakow

As you will recall, your predecessor in office proposed a set of policies which evoked what I then thought would be the only memo so titled. The Herrick report suggests to me that I was wrong: we still have a penchant for the deep end.

As your Director of Evaluation I feel I must note objections to major policy recommendations, now under consideration, which are contrary to the Agency's experience and to fact.

Before noting these I feel I should explain why this dissent must be filed. The Herrick exercise has been conducted with terrific haste and in a most unusual way. I think it fair to state at the outset that every time the Agency has made major policy decisions in haste the cleanup crew has had to put in years of work. It is understandable that our new bosses want to make their mark quickly, but by pushing so quickly they are unlikely to achieve quality results.

By way of contrast, when Governor Gilligan came to A.I.D. he had some of the same concerns about reducing A.I.D.'s personnel to permit greater program efficiency. He formed a task force of Carterites to which a very few of us who had been here awhile were asked to join. That task force spent a good deal of time and care eliciting opinions and ideas from the field and Washington which we carefully reviewed. We sent special cables to the field to particularly innovative people. We did all this, not only to create a good product, but to protect the Governor, as a newcomer, from making hasty decisions. The present effort involved little of this care. Indeed, a task force was formed, but quickly left aside. (While this memo is a dissenting opinion, it might be more accurate to say that the Herrick draft is a dissent from the Task Force!) Hardly anyone in A.I.D. was permitted to look at the draft before Messrs. Ehrlich and Bennet reviewed it and gave it their endorsement. Even our Acting Administrator was permitted only a hasty review because of which his foot is still bandaged.

Now the report is being circulated, but there still is no assurance of orderly field input not that top A.I.D./Washington executives will have the opportunity to discuss it with Mr. Ehrlich and Mr. Bennet as a group. Most A.I.D. executives have only two options in reviewing the report: 1) they are directed on short notice to present comments at the same meeting in which their Bureau budgets are being discussed (a procedure sure to weaken the reviews, both of the report and the budgets); or 2) they may write directly to you. A.I.D. has a history of discussing major policy ideas through a third mechanism: debate among the top executives meeting as a group. It is a good mechanism and I urge that it be adopted as a



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

bare minimum to assure more orderly review of some very sweeping notions.

I would like now to list my substantive objections to the recommendations in the report. While the current draft is better than previous ones (which I saw under circumstances which made me feel more akin to a member of the underground Russian literati rather than a member of a rational bureaucracy), it still has major deficiencies.

- As the responsible officer for evaluation, I must note that virtually no recommendation in the report is based upon any evidence of efficacy, experience, or tried wisdom. In fact, experience contradicts many of the recommendations. No major recommendation is based on less successful experience than the one on sectoral assistance. A.I.D.'s record in this area, at best, is very mixed. The record of "Type IV" sectoral assistance indicates that it is built upon three absolutely necessary factors: 1) LDC competence; 2) an agreement on development philosophy; and 3) a willingness in the LDC to receive and implement major policy advice from the U. S. Try those tests out against several Type IV countries on Mrs. Herrick's list. The worst cases on the list fail at least two of the tests. At the other end of the scale are countries which at one time we thought met all three tests. History is a useful guide to demonstrate our inability to accurately make these judgments. In Colombia where "pioneer" large-scale sector programs were initiated by A.I.D., the government made concessions in exchange for years of sectoral loans only when they were going to carry out the policy anyway and garnered over \$100 million which mainly stayed in the pipeline. (The then Mission economist carefully noted how Colombia's FX position increased as we gave sector loans and how, at the same time, the government increased its interest-bearing accounts in New York.) In fact, our Latin America Bureau, which pioneered the type of assistance advocated by Mrs. Herrick, wound up pulling back sharply from this approach since, in general, it simply didn't work. Many people now criticize the World Bank because it throws money at problems along the lines advocated by the draft report. I would maintain that if money and policy were the only constraints, we should have seen far more dramatic results from the world development efforts of the last few decades. Surely sectoral assistance is one pattern worth trying where the three above factors are all favorable, but the incidence of this is and will be far less than shown in the Herrick report.
- The Colombia case, noted above, also brings to mind the special dilemma of sectoral assistance. Is its premise that all that is needed is money, or, that money is the way to achieve policy change? If it is the former, then you don't need A.I.D.

Surely I.D.C.A. will find other appropriate remedies when the sole need of a country is for money. As the major stockholder in the major multilaterals, the U. S. can exert its influence for this kind of assistance. I.D.C.A. can innovate other mechanisms, too, e.g., debt relief, lending guarantees, pressure on OPEC to aid such cases, etc. I can find these options more satisfying than using program loans under the rubric of its fulfilling the basic human needs, grass roots, help the poor majority development philosophy of the Foreign Assistance Act. Basic human needs and large-scale cash transfers are widely considered incompatible. Mrs. Herrick says we can do both, but saying it doesn't make it so, and trials of the past, such as Pakistan and Colombia, bear out the now accepted development wisdom that basic human needs development requires projects. Certainly cash is often needed (indeed, the absence of it has something to do with poverty!), but the best use of A.I.D.'s restricted funds may not be as a central banker. In any case, the situations where countries only need cash are far, far fewer than the draft report implies.

-- The real interest of the draft appears to be in shifting A.I.D. to offer cash plus policy. Here one must ask: where in the report is political reality? Of course, nation states have always wanted assistance in the form of cash. But why do we assume that by 1985 51% of our funds can be given in bargains in which policy quid pro quos can be purchased for U. S. funds? In fact, this failed in the past during more propitious political periods. The U. S. was able to exercise its policy might in the '50s and '60s, albeit at the cost of lingering political resentment in many cases. But little development trickled to the poor. Now it's a new ball game. The LDCs now act far stronger politically. They are more nationalistic and self-assured. At the same time, the U. S. is relatively weaker. Our relative weakness derives from political realism (even in the '60s we thought we were stronger than we were); the growth of LDC confidence; and the fact that there are far more aid options available now (33 bilateral donors and at least double that number of multilateral funds). When we now try to inject ourselves into major LDC policy questions, the LDCs are far more apt to tell us to bug off, as several did when human rights became an aid litmus test. Will the twin trends of growing LDC strength and relative U. S. weakness change in the 1980s? I think not.

-- How then should the U. S. try to change basic human needs policies in LDCs? First, by recognizing that although for nearly thirty years aid leaders have been searching the building for the magic development button, there's no such button.

Looking for uniform worldwide solutions is part of the "white man's madness" in this business. I applaud the Herrick draft for recognizing different country situations. But her recommended levels trend towards a uniform solution by the late '80s. Second, looking for uniform solutions within countries is also a folly. Sectoral performance within countries varies almost as much as national performance among countries. The Herrick report ignores the greatly different maturity and capability among ministries and sectors. Good analysis might well lead to recommendations that three of the four "types" of programs should be concurrently run in a country (e.g., I, II and IV). Third, we must recognize that the U. S. must prove the legitimacy of its policy advice by implementing successful basic human needs projects at the grass roots level. For example, the report classes Indonesia as Type III; if this means that our \$100 million program isn't going to be the basis of national policy trade-offs, it is correct. But in population, it is wrong. Here, after 10 years of hard local-level work and much innovation, we are well on the way to encouraging a shift from smaller to larger wholesaling mechanisms, e.g., multi-lateral mega-bucks or, if we do not have better options, to sectoral-type program assistance. Are there many other opportunities in the world where we have earned the right to interact on a sectoral policy level? No.

-- Is it possible to expand use of intermediaries? Of course it is. One needs to consider three facts in so doing: 1) we use a helluva lot of them now; 2) the quality of such assistance is often a problem; and 3) there are heavy associated costs if intermediaries are to perform well. First, numbers. We now place tremendous reliance upon intermediaries. The late George Wing, special friend and advisor to Gilligan, calculated for the Governor that some 13,000 grant and contract personnel work overseas under A.I.D. financing. These people are hidden only in the sense that the number is so big Gilligan didn't talk about it much. But MODE or schmode, these people are known to the host governments who know where the source of salaries is and to whom loyalty is owed. Substitution of A.I.D. direct-hires by intermediaries is a sleight of hand which only we care about.

Second, quality. The Laws of Thermodynamics apply to foreign assistance as well as to everything else. There are losses of efficiency every time you pass energy, including mental energy such as ideas and directives, through different forms or bureaucratic levels. You get nothing for nothing, including technical field service. That field service, when supplied by intermediaries, sometimes is dazzling. But it is too often merely the way tired, dispirited and out-of-date people (often ex-A.I.D.) come back in new guise with 120% overhead tacked on. Just as A.I.D. has taken over five years to adjust to the "New Directions"

our intermediaries need to adjust. Most contract houses are undergoing that adjustment and neither we nor they know whether they are going to make it since the substantive tasks in the new contracts are far tougher to handle than the old. Many PVOs are also in transition as we push them into the big time. But few PVOs are ready to assume quantum leaps in tasks while maintaining their quality.

Third, A.I.D. overhead. To build up the capacity of intermediaries overseas one needs Washington push (as Herrick correctly notes) and local support (which is not noted in the report). PVOs, for example, often require labor-intensive local A.I.D. support. A great many of them still need assistance to become more development-oriented. And most of them still must work on a small project basis to be effective. Taken cumulatively, they are simply not a vehicle for absorbing huge amounts of future funds.

- Certainly many intermediaries would be cut out if the \$5 million project floor were to be adopted. Among PVOs there are only a handful which can handle \$5 million projects or basket projects in that amount. For most, they would lose their strongest asset -- close working relationships at the grass roots -- if they went to large-scale work. But there are more fundamental weaknesses with the notion of a \$5 million floor. To imply that only programs which have expensive solutions merit our attention is ludicrous. (The Green Revolution in Turkey was started by an A.I.D. agronomist smuggling in perhaps \$20 worth of seeds through the diplomatic pouch.) The behavioral result from this notion will be similar to what has happened in A.I.D. over the last 17 years since \$10 million became a magical cutoff (i.e., projects above that level now go to the Administrator for approval and at times before went to the President). I can remember knocking down a \$12 million project to \$9.7 million to get it through. Just the other day we saw DS propose a \$9.998 million project in the hopes it wouldn't have to be sent to Mr. Nooter. If A.I.D. adopts the Herrick proposal for a dogmatic \$5 million floor, I can just see someone with a brilliant \$100,000 idea having to tack on \$4.9 million to get the funds!
- Does any of this have to do with New Directions? Some does. Undoubtedly we can exercise some policy leverage in countries with competence and a willingness to bargain some of their policy sovereignty. But that may be only a handful of cases. In most countries we have little assurance that the bulk of such assistance will reach the poor. The evidence is fairly strong that the poor get screwed by a whole set of middlemen, including their governments. The 1973 Foreign Assistance Act undertook to change our approach so that we were working for the poor, not against them. Why adopt an aid approach which

in many countries pushes us into league with the bad guys against the good guys? Do we really want to channel cash through such designated Type IV candidates as Marcos? Even when the leadership is enlightened we must recall just how limited the effect of changes in state policy has on the welfare of the poor. In an excellent report on Bangladesh ("Bangladesh: A Profile of the Countryside". Jannuzi & Peach, April 1979) the authors conclude the real problem preventing betterment of the rural poor in Bangladesh is the agrarian structure there which has ". . . not been altered in any substantial manner by means of the application of state policy in the period from 1948 through 1978." (They further note that because the majority of the rural poor are landless they can't benefit from the Types III and IV assistance we give there in the form of seeds, fertilizers, pesticides and modern irrigation facilities.) As an instrument of U. S. foreign policy wouldn't we rather make our long-term pacts more directly with those who are being oppressed rather than their oppressors? Even under project assistance with relatively close monitoring and controls assured by our agreements, all too often we wind up enriching the rich, but that stems more from our failure to correctly read the local situation than from an inability to influence local project officials.

The potential for mischief is far greater in non-project assistance. My guess is that Congress (at least the Committees we deal with) understands better than we appear to just how much the Herrick proposals would undercut the spirit and substance of the New Directions. In fact, one of the real dangers of the Herrick approach is that it will alienate those few Hill liberals inclined to ask for higher assistance authorizations and appropriations.

Fortunately, Mr. Ehrlich and Mr. Bennet have other options. But the Herrick paper didn't give them those options. Those options are derived from two questions which unfortunately were not explicit in the draft:

1. Can one cut staff? Surely. We have a large number of unfilled positions now. Our new bosses can clamp on a freeze until they sort out the differences in the Agency. Everyone may suffer a bit, but we'll still remain in the aid business. Then one can undertake to reduce positions in such places as: DS, because of the creation of ISTC; PPC, because of the creation of IDCA; the field, because Gilligan never did effectively institute action to determine just which field posts were flush and which too lean; and the Regional Bureaus because the economies of delegating more to the field haven't been assessed and collected nor has there been enough consistent push to reduce redundancies between line and staff bureaus. Of course, there is still fat in SER and some of the other central offices. The important point is that there are many management

options which can be played out in an orderly way to trade staff cuts for a minimum impact on programs. This will take work since the Agency is a bit heavy, but not obese.

2. Can one make program changes which promote staff economies? Again, yes. Many of the more experienced people in A.I.D. believe we can undertake a greater volume of aid (should such become available) through a larger average size of projects, less emphasis on faddism in programs; more emphasis on follow-up of proven successes, and less central program activity.

Maybe this sounds like the rear guard defending the status quo. If so, I hasten to add what you already know: that I'm an authenticated (but aging) young Turk who has worked on a large number of Agency reforms, who believes many improvements still need to be made to assure higher quality aid, who wants to push responsible changes, but who also has fought against the arm chair assistance approach which failed so much in the past.

Mr. Ehrlich and Mr. Bennet have enough time before executive decisions need to be made on 1981, 3 and 5 for a closer examination so that they can clearly differentiate proposals for recycling past mistakes from genuine quality initiatives. My guess is that once proper care is taken, they will see that our policies are pretty sensible, it's our management practices which need tightening up.

New bosses are often treated with rhetorical answers. I'm afraid that's what the Herrick exercise gave Mr. Ehrlich and Mr. Bennet. What they should have been told was that it's nearly a "no win" situation. In this domestic political climate we won't get a dramatic increase in aid levels, but like many other major donors (U.K., Canada, Australia, Germany) we will get continued pressure on job ceilings. By quickly making an unfounded "confession" that we're plumb full of excess bodies, the net result will be far fewer people to handle a stagnant level of aid. Perhaps it's inevitable that A.I.D.'s position ceiling is lowered. But the advice given will only save bodies at the price of program quality. That's a lousy trade and they shouldn't buy it.

cc: IDCA Planning Office, Mr. Thomas Ehrlich
H, Mr. Douglas Bennet
A/AID, Mr. Robert H. Nooter (Acting)
Task Force Members

22

MEMORANDUM

August 2, 1979

TO : AA/PPC, Mr. Shakow

FROM : AA/SER, D. G. MacDonald

SUBJECT : Your 7/25 Memorandum Attaching "A Draft Plan for Expansion of the AID Program with Stable or Reduced Staff Ceiling"

Forgive my being a day late in responding.

My first comment on the plan you were assigned to draw up pertains to one of its terms of reference -- namely, that you show how AID might be able to administer a program in FY 1983 double its present size with a staff "... reduction of 500 or more ..."

The origins of this study were, as I recall:

- AID's initial insistence in 1977 and 1978 that it would need more people to handle more work;
- next, its equally insistent assurance -- when finally and firmly told that personnel increases were out of the question -- that the Agency could handle twice the work with no more people; and
- the credibility problem that abrupt and sudden reversal created for us with the White House staff which then challenged AID to demonstrate it could effectively handle more with the same workforce.

In all the foregoing there was no discussion of decreasing the AID staff. I fear that having now said we can handle a doubled program with 10% fewer people* we may find the credibility problem compounded. If it isn't and if we are asked to administer a much larger program, I expect that OMB and Congress will call us on our "offer" to reduce staff by 500 whatever the merits; and that such a cut is more likely still if we're not given a larger program to administer.

As to the draft plan itself, I have three main points, knowing that many others have already been, or are being advanced to you.

FIRST, as with any very complex problem the simplest possible solution has to be found. I assume as the draft plan does that Congressional "new directions mandates" will remain. However, I assume a very high

* From the Latin, by the way, a 10% reduction is a "decimation"!

level of Congressional intolerance to any major shift away from our present forms or methods of delivering assistance, e.g., shifts toward large-scale capital projects and/or non-project assistance. Given those two assumptions, I believe the single, simplest and most effective step we can take to deal with the workload/workforce problem would be to enlarge the dollar size (but not increase the number) of our present basic work units -- projects, contracts, grants, etc.

"Life of project finding" as suggested in your draft plan could help restrain workload growth but I believe the plan ignores practical limits on the use of this device. It would take years to employ it fully; it would limit severely our present flexibility in shifting funds regionally, within countries and among projects; and it assumes a finality in initial project design not supported by past experience and even less to be expected in the future, given the increasingly experimental character of our programs. Indeed, in our relatively novel collaborative assistance projects we start with the premise that we can't fix the final design or duration of the project. So I suggest that we first exploit to the maximum the device of increasing the dollar size of existing "work units." Our bureaucratic machinery is already moving instinctively in this direction. For instance, at the three-quarter mark of FY 1979, handling a larger total contracting workload with a stable workforce we had moved fewer individual transactions, but their value was greater than those of last year.

There are probably other such single devices ("life of project funding" is one) that we can adopt. I think it would be wise to select from among them the fewest necessary to deal with the problem at hand -- the workload/workforce problem. It is critically important to avoid a multiplicity of changes in our organization and throughout our programming and implementation systems if a few will suffice. Changes in programming and implementation systems; in the role of PVOs and AID's relations with them; in the balance of responsibilities between AID's Country Missions and Regional Offices; etc., etc., are easily "ticked off" as possibilities for bringing workload into equilibrium with workforce. But they are enormously difficult to put into effect -- time consuming and staff intensive. It took years to develop a new project agreement. Would it take much less to develop a new "program" agreement? How long and how much staff time would it take to devise new contractual and grant policies and procedures acceptable to PVOs and satisfactory to us ("us" being AID's line and staff Bureaus, the Contract Office, GC(!) and the Auditor General?) A case in point which graphically illustrates the time and staff intensity of the foregoing kind of changes: AID Handbook 3 prescribing how Project Assistance is to be implemented. It was to be completed in 1976. It still hasn't because we had insufficient staff to write it.

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SECOND, as we plan to cope with a significant staff cut and ways to do things less staff-intensively, we'd better take immediate inventory of present initiatives within the organization to press for more staff-intensive policies and turn them around. E.g., the General Counsel is pressing for further increases in competitive contracting beyond the substantial accomplishments achieved in the past two years. There may be other areas -- in auditing and financial management, perhaps, -- which should be reviewed now to be sure we're not going off in two directions at the same time.

THIRD, a word of admonition against the inevitable temptations which will arise to seek an understanding with the Congress that we will "do less monitoring" and to cut "support personnel." Congress in all its parts will not enter into such an understanding -- and shouldn't.

My vote for AID's principal weakness in the past seven years or so is program implementation, both here and overseas. AID/W is largely preoccupied with planning and packaging proposals to Congress which warrant new appropriations and, next, with evaluating what we've done in the past for its lessons of how to plan for the future.

Moreover, we are generally inattentive to "implementation" because it takes place overseas. -- out-of-sight and, thus, not in mind. We underestimate the technical and support personnel our Missions require to carry programs out. We should strive to augment their resources overseas and devote more attention to implementation here.

These two themes are elaborated in a memorandum of July 30 to me from the Director of the Office of Management Operations, which I attach.

Attachment

Memo f/SER/MO 7/30/79

cc: Mr. T.Ehrlich
Mr. D.Bennet
Mr. R.Nooter

15

memorandum

DATE: JUL 30 1979

REPLY TO
ATTN OF: SER/MO, James L. Thompson

SUBJECT: Doing More With Less

TO: AA/SER, D. G. MacDonald

I share with many in AID a concern that the draft proposal to do more with fewer people makes assumptions from an undefined resource base - that is, the question of how our resources today fit or do not fit our program now and what has already been done in the economy directions proposed (and not for the first time) need to be realistically examined, including the reduction of levels of staff of various kinds, and shifting to other means to get work done. We cannot, I believe, simply assume that a significant cut of overseas direct-hire positions is practicable any longer if the program remains steady or increases.

While there is truth in the belief that almost anyone can always achieve more, the AID classic approach is reminiscent of the fiscal policy established by Churchill as Chancellor of the Exchequer in the 1920's. He stated that military budgets would be based upon the planning assumption that war would not occur for ten years, with a movable base advancing the whole assumption each year. As I recall, the assumption was still in effect in the thirties, just before war started. AID has similarly assumed that it can cut support people any time it wishes to do so, from any base. We did this in AID/W, and effectively eliminated AID/W property inventories through one cut of staff in 1972 with centralization, and others up to 1978. Now we are in trouble with Congress because of non-compliance and are putting necessary direct hire slots back to keep the books straight.

Missions have similar situations, right now. Overseas, the many missions which SER/MO staff have visited in the past year are desperate because of reduced staff to do work still demanded by the program. Vehicles don't run because we no longer have our competent shops or supervision. Property records are often poor or non-existent, contrary to statute. Ability to even prepare legible purchase orders is now lacking in some missions, as GAO has noted. In most places we have one AID American administrative manager, who must work competently with up to 23 of AID's 33 Handbooks to ensure proper mission support and adequate performance. He now typically has few locals, and those are largely low in competence, as a career foreign national force has to a great degree disappeared. The new American Ambassador in one South American AID mission has observed that a local could probably be the AID Executive Officer, without reference to the skills required, and statutory demands for an American officer to do certain things, and without suggesting that his own Administrative Officer position, with far less complexity of responsibility, could be likewise filled. So goes the illusion around the world.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

Realities:

- U.S. Direct Hire Full-Time overseas strength has increased some 15% since 1976. But, at the same time, part-time employment has risen by 35%, without ceiling constraint. Effective 10/1/80, OMB Bulletin 79-11 will impose a ceiling on part-time employment for the first time. Under this limitation, if today's NON-FTEPP overseas staff of 465 work 32 hours a week each, 372 new ceilings will be required within AID's existing overall limitation.
- Foreign national full-time overseas employment has remained steady since 1975. But, reported foreign national contract employment has risen by 300%, and now equals direct hire numbers. Unreported are possibly thousands, including those under end product service contracts and under JAO and employee association contracts, in what were once AID direct-hire functions and are still AID financed support activities.
- Of some 2,000 remaining direct-hire foreign nationals, a large number relate to executive, program and project Americans. The 1980 ABS calls for 922 locals in this category.
- The world's AID Controllers employ about 430 locals. Auditors account for some more. Both are relatively irreducible numbers as long as we do business the way we do.
- There is some core direct hire number necessary for administrative support. We cannot operate a mail and communications distribution system, for example, and certain other functions through contracts. However, the 1978-80 ABS already proposes annual cuts in support locals of 12% each year.
- State has, essentially, no more employment ceiling to give us, even if JAO support works and can be expanded on AID's behalf.

Conclusions:

- We can undoubtedly do some more with what we have.
 - We need to streamline programs and thin out the ones with low impact, high overhead.
 - AID ought to change its way of doing business, simplifying and reducing volumes of procedures and rules.
 - Well stated program contracts are the way to reduce direct hire and operating expense support.
 - Contracts for some more logistic support are feasible. SER/MO is working on this aspect now.
 - We cannot depend on State operations to either significantly expand support services, or to save AID ceiling if they do. If they do, OE costs per unit of service will also rise, and not decrease, and quality and levels of service may decrease still further.
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- AID must be very circumspect about support staff reduction possibilities for the future.
- It is not a cut of staff in Washington which will eliminate "procedural bottlenecks characteristic of current practices". This is a contradiction in terms and without change in procedures themselves, a cut might even further slow down the program process. Past cuts of communications staff have already had an adverse effect which we are trying to correct.

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August 6, 1979

NOTE FOR SER/MO, Mr. James L. Thompson

Jim,

AA/AFR's August 1 commentary on the PPC draft plan on how to do "more with less" has a very interesting paragraph on travel per diem, extracted below. He says most OECD countries simply provide travellers a flat rate, period, and that the entire work-intensive vouchering process has been eliminated. The extract follows:

"Most other donor development agencies, and certain international organizations have eliminated travel vouchering and auditing since it is not cost effective. AID seems to be heading in the opposite direction. New voucher forms are occupying much more professional and secretarial time. The Agency should consider adopting the OECD system where travelers are given a fixed cash per diem by country which includes adequate provision for taxi fares. Based on confirmation of actual travel this is the only one time payment. There is no auditing, no traveler reclaim and a substantial reduction in unnecessary paper."

Can you check out the OECD procedure -- that is, confirm their reported practice and get any other relevant information. This suggestion has a lot of appeal and if there is already a satisfactorily working precedent we should seriously consider it. There is somewhat glib discussion in the PPC "plan" that AID should explain to the Congress that it will do less monitoring (e.g., turn more of our programs over to PVOs, etc.) in the future in order to do more work with less people. In my comments I predicted the Congress would not tolerate that. This proposal, however, is of a different kind and it wouldn't really raise the issue of failing to "monitor" our program. It's also much in line with the principal point I made in my comments -- namely, that instead of changing everything in sight we should change a minimum number of current practices which would surely reduce our workload. This is one such change!

D. G. MacDonald

cc: Mr Owens

2A

Richard F. Calhoun, Acting
memorandum

DATE: July 26, 1979

REPORTING OFFICE: SER/MP, Richard F. Calhoun, Acting

SUBJECT: Draft Plan for Expansion of A.I.D. Program with Stable or Reduced Staff Ceiling

TO: SER/COM, Mr. H. Dweilley
SER/COM, Mr. W. Schmeisser
SER/DM, Mr. J. McMahon
SER/MO, Mr. J. Thompson

Attached is a memorandum of July 25 from Alex Shakow to the Executive Staff requesting comments on the enclosed draft plan which has been prepared at the request of Mr. Ehrlich.

On page 5 of the draft plan, there is a reference to Part IX concerning procedural changes. By error, the referenced material was not included. However, a copy of Part IX of the earlier draft was obtained and is attached for your information. Some of the points included are of particular relevance to SER offices.

As the deadline for Bureau response to Mr. Shakow is August 1, would you please provide your comments to MP by C.O.B. Monday, July 30.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

7/17/79

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

ASSISTANT
ADMINISTRATOR

July 25, 1979

MEMORANDUM TO THE EXECUTIVE STAFF

If bilateral assistance levels are to increase substantially over the next few years, we must demonstrate that A.I.D. is prepared to get meaningful results from additional funds and do it at today's staffing level or even with somewhat fewer positions.

On this basis, Tom Ehrlich of the IDCA Planning Office asked for a draft plan for expansion of the A.I.D. program with stable or reduced staff ceiling. Allison Herrick drafted the enclosed plan after extensive consultation with Tom, Doug Bennet, me, and many others. Tom and Doug consider the basic thrust of the plan to be a sound working hypothesis for our future operations.

The purpose of the plan is not to produce a wholesale change in the A.I.D. program or cause yet another reorganization of the Agency, but rather to set some directions toward which we might begin moving on a substantial but experimental basis with the FY 1981 budget. While time is very short, we would like to have your preliminary reactions during our budget reviews on how the program outlined might be undertaken in your area. Beyond that I would like your comments on the attached paper by Wednesday, August 1. If it seems useful, we will schedule a separate meeting next week with Tom and Doug to discuss the issues raised by the paper.

Alex Shakow

Alexander Shakow
Assistant Administrator
for Program and Policy

Attachment

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

A Draft Plan for Expansion of the A.I.D. Program with Stable or Reduced Staff Ceiling

Most U.S. bilateral assistance now reaches recipient countries through a relatively uniform system -- projects devised and supervised by A.I.D. field missions. With the number of other donors increasing, the private sector more active in development-related efforts, and developing countries increasingly affected by fluctuations in the world economy, A.I.D. may need a variety of approaches if it is to get maximum impact from assistance commitments and capitalize on the comparative advantages of its particular approach.

Without an abrupt change in the A.I.D. program, we can begin building in FY 1981 toward an assistance format which not only enhances A.I.D.'s flexibility but enables us to handle substantially larger amounts of funding with fewer personnel.

The plan laid out below is intended to ensure that A.I.D. can carry out an effective program, at more than twice today's level by 1983, fulfilling its mandate to contribute to basic human needs and emphasizing poor people in poor countries where governments are committed to help the poor and have a good human rights record.* A.I.D. would continue to maintain in-country staff in most recipient countries, take the lead in selected innovative approaches and seek to help countries develop their own capacities to manage their own and external resources for purposes of development but would focus more on particular countries or particular sectors in certain countries.

We believe this plan will satisfy OMB's concern as to whether A.I.D. can handle growing budget levels with fewer people, and also respond to Congressional concerns about A.I.D.'s efficiency.

A.I.D. is proposing to operate an expanded Development Assistance program, of up to \$2.036 billion in FY 1981 and more in future years, with a full time staff that is reduced from 5760 by at least 170, and possibly 730, positions. The target for 1983, approved for planning purposes by the President last December, is \$3.2 billion, and for 1985, \$4.5 billion. Most A.I.D. program managers have requested increases in position levels for 1981 (a net total of some 300 positions overseas and 250 in Washington). Thus requests exceed the current ceiling by about 10% after transfers to IDCA and ISTC.

The plan calls for smaller overseas missions on the average and changes in the mix of skills assigned to missions and to Washington, emphasizing broad analytical skills throughout and concentration of technical skills on call in Washington. Management of personnel shifts will present an immense challenge. Without a reduction-in-force attrition alone will yield sufficient staff vacancies each year to permit rehiring to fill some of the skills gap--and also to permit a gradual reduction in total staff if that should be required by OMB or consistent with a new mode of operation. But strong leadership and rigorous advance planning will be needed to maintain personnel levels at an established ceiling and fill vacancies promptly with needed skills. One of the perennial problems, for example, has been the difficulty in recruiting either direct hire U.S. staff or contractors for French-speaking Africa.

ATTN: OCGS
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The Plan

The heart of the plan for 1981-1985 is a threefold move away from A.I.D.'s project-oriented mode, which is characterized by direct involvement of A.I.D. staff in design, negotiation and implementation or monitoring of myriad relatively small projects in all A.I.D. recipient countries. (For the relatively large program in Indonesia, for example, the mission proposes to make separate obligations in 1981 for 34 specific project activities; for the expanding program in Niger the mission proposes 14 new projects in the period 1979-1981, an average annual funding of only \$1 million for each project in the portfolio; even the relatively smaller stable program for Costa Rica will consist of 12 separately funded activities in 1981.)

A.I.D. would tailor its in-country programs according to the country's need, commitment and capacity to undertake successful development efforts and the importance of direct U.S. assistance to those development efforts. A.I.D. would concentrate its own direct hire personnel on influencing policy directions of the recipient country, designing programs and projects with the country, and evaluating results in order to improve future programs in that country and elsewhere.

A.I.D. would expand its support of the work of intermediaries, providing them funds with which to plan, implement and evaluate their development-related activities. The intermediaries would include PVOs, specialized organizations such as Pathfinder Fund, Appropriate Technology International (ATI), multilateral organizations such as CGIAR and UNFPA, and organizations or consortia essentially created by the U.S. Government such as Agricultural Cooperative Development International or Participating Agencies Cooperating Together (and potential new organizations in the fields of energy, natural resources, environment).

AID/W Organizations would:

- provide policy guidance and oversight of evaluation,
- provide direct technical advice and services to missions,
- selectively obtain services for field activities through grants, contracts, and core support agreements with other agencies,
- advise ISTC and other institutions on development problems that require research,
- select or create intermediaries to carry out development activities financed by funds from A.I.D. and their own resources, and
- manage regionally oriented activities that are not as practically managed in the field.

Programs would be one of four types by 1985 as follows:

Type I: Programs carried out by PVOs and other intermediaries, partially financed by but not designed or specifically approved by A.I.D. In countries where today's relatively small programs have little general impact on growth and development. Information on the general magnitude and types of programs would be maintained in Washington or an A.I.D. regional office. U.S. staff of 0-3.

NOTE: If it is the interest of the United States to ensure a program of a certain size or maintain a direct bilateral relationship with the government of any Type I recipient, A.I.D. could encourage selected intermediaries to work in that country and a number of intermediary activities could be covered by a bilateral agreement (somewhat on the model of the co-financing agreement used in Indonesia).

Example: Benin, South Pacific, Chile

Type II: Program of from \$5-15 million at 1981 levels, consisting of projects in no more than two functional sectors at one time (population planning in combination with health activities would be considered a single sector). In countries that can benefit from development projects and do not need, or are not yet capable of implementing, large sector programs. U.S. staff 5-10.

Example: Liberia, Rwanda, El Salvador

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Type III: Project-oriented programs of \$10 million and up in 1981 and subsequent years, more or less in the current A.I.D. style, gradually to be consolidated around a limited number of sectors. In countries where the United States desires to commit a higher level of resources and in which the participation of A.I.D. staff makes a demonstrable difference in program effectiveness. Staff of varying size depending on the relative consolidation of the program.

Example: Somalia, Mali, Indonesia, Bolivia

Type IV: Larger programs to provide broad financial support to one or two sectors, with substantial obligations made periodically to assist up to five years of country effort. Staff to be limited to 8-15.

Example: Kenya, Sri Lanka, Honduras

(See attachment for illustrative criteria for and characteristics of program types.)

The Indicative Planning Allocation system would determine indicative levels for countries of Type II, III, and IV.

The presumption is that Type III, which represents the current mode of operation, will occur progressively less frequently (in 44 countries in 1979, 24 in 1983 and 20 in 1985). In the future, countries that have qualified for limited direct project assistance (Type II) and show promise for benefiting from and being able to manage larger financial transfers could make the transition to a multiyear major sectoral assistance program (Type IV).

Consultants have advised, and many A.I.D. managers have proposed, that significant personnel efficiencies could be achieved by eliminating small projects from mission programs (there is no significant difference in the amount of time and effort applied to design, review and approval of small and large projects) and by fully funding every project at the time of the initial obligation (thus eliminating annual review, justification and negotiation). This plan therefore proposes a minimum life-of-project cost of \$5 million and full obligation at the start of the project, assuming that more modest efforts could be handled by intermediaries. A few exceptions to the minimum cost may prove to be compelling; among these may be feasibility and design studies and pilot or control cases upon which a later decision to fund a major project would depend.

Intermediaries would include U.S. and multilateral organizations and would range in type and relationship to A.I.D. from Appropriate Technology International, which is relatively independent, to those which take direction from A.I.D. or would agree with A.I.D. to commit a specified amount to a certain activity or particular country.

The intermediaries would be supported because they serve A.I.D.'s development purposes by:

- working at the community level engaging participation by local residents and attempting innovative approaches to solution of problems within the local cultural context,
- carrying out the kind of relatively small project that is innovative or relatively "good" in the sense that it succeeds in its particular aims and is replicable, but which A.I.D. will no longer engage in directly,
- implementing significant programs in certain functional sectors to alleviate or advance understanding of problems common to developing nations, and
- mobilizing additional financial resources to apply to development.

Changes in Procedures

The plan proposes that A.I.D. will make a number of changes in procedures to curtail the amount of time spent reviewing and concurring in the actions of line managers, eliminate bottlenecks and unnecessary practices and permit greater allocation of staff time to country-specific development planning, provision of special expertise to field missions and evaluation of effectiveness (not so much of projects as of programs). Most of these changes (see Part IX of the plan) should be made in any case for purposes of good management. They have been suggested over and over again by A.I.D. employees, critics and consultants. If the program is to expand while the staff ceiling is maintained at current level, or reduced, the need to implement the changes becomes more compelling. Moreover, in our view, OMB must be convinced that the Agency will improve its management, especially by eliminating redundant Washington functions.

CANT
FIND
ANY
PART
IX.

ACCORDING TO THE ATTACHED
FOLLOW LATTER, 2/6

Most current operating principles of A.I.D. are preserved by this plan.

- It does not recommend that A.I.D. become strictly a provider of foreign exchange or that it seek financial return on its development investments.
- It does not propose a change in the Congressionally mandated effort of A.I.D. to implement Security Supporting Assistance programs emphasizing as much as possible their effort on basic human needs.
- It does not preclude a bilateral assistance relationship in any country for which such a relationship is deemed to be important to foreign policy.
- It does not propose a reorientation to emphasize, through line of authority, functional sectors over geographic regions.
- It does not recommend that the U.S. Government adopt the donor model of the World Bank or other major bilateral donors.

The plan assumes overall reductions in staff size and relative skills mix of personnel, but does not suggest specific structural changes within AID/W to reorder the functional division of responsibility. We will consider such structure changes as we begin to implement the plan.

The draft plan rests on some assumptions:

- that we will not seek amendment of the policy and basic authority set forth in Part I of the Foreign Assistance Act for Development Assistance;
- that the A.I.D. program will continue to emphasize assistance to poor countries committed to help their poor people participate equitably in the benefits of development;
- that economic growth is a necessary ingredient of and precondition for equitable provision of basic human needs;
- that A.I.D. can be less directly involved in program management than it is now and still manage public funds with due regard for the need to demonstrate their effectiveness;
- that A.I.D.'s project-oriented approach implemented by relatively large in-country staff is not appropriate to all U.S. purposes or most effective in all country circumstances;
- that intermediaries, including Private Voluntary Organizations, can be more extensively used to support U.S. development interests and initiate innovative programs;

- that a number of possible procedural changes can reduce the personnel intensity of the conduct of A.I.D. and are advisable in any case to improve management;
- that the repeatedly identified procedural bottlenecks characteristic of current practices will not be eliminated until staff levels, especially those in Washington, are significantly cut, and
- that changes in the skills mix of A.I.D. personnel can be achieved without a reduction-in-force.

Allocation of Staff Ceiling

The effects of the plan would be to:

- eliminate direct hire staffs assigned to Type I countries by assigning responsibility to regional offices or regional bureaus in Washington or, at least, reduce each staff to 0 to 3 persons (no more than two professionals) attached to the Embassy;
- reduce U.S. staff levels in Type II countries to 5-10, in Type IV countries to 8-15, and in Type III countries to those necessary for operation in a limited number of sectors by 1983;
- reduce the need for foreign national staff engaged in support functions;
- transfer some specific functional sector experts, e.g., in agronomy, veterinary medicine, tropical diseases, from field missions to Washington to serve on central or regional technical resource staffs;
- increase the number of high caliber personnel with broad skills in economics, social analysis, general development planning and functional sector planning in the field.

In addition, to the extent that it would not increase long term costs and would improve efficiency, relatively large direct hire foreign national staffs could be partially converted to contract status. *Handwritten notes: 1/22/83, 1/23/83, 1/24/83, 1/25/83, 1/26/83, 1/27/83, 1/28/83, 1/29/83, 1/30/83, 1/31/83, 2/1/83, 2/2/83, 2/3/83, 2/4/83, 2/5/83, 2/6/83, 2/7/83, 2/8/83, 2/9/83, 2/10/83, 2/11/83, 2/12/83, 2/13/83, 2/14/83, 2/15/83, 2/16/83, 2/17/83, 2/18/83, 2/19/83, 2/20/83, 2/21/83, 2/22/83, 2/23/83, 2/24/83, 2/25/83, 2/26/83, 2/27/83, 2/28/83, 2/29/83, 2/30/83, 3/1/83, 3/2/83, 3/3/83, 3/4/83, 3/5/83, 3/6/83, 3/7/83, 3/8/83, 3/9/83, 3/10/83, 3/11/83, 3/12/83, 3/13/83, 3/14/83, 3/15/83, 3/16/83, 3/17/83, 3/18/83, 3/19/83, 3/20/83, 3/21/83, 3/22/83, 3/23/83, 3/24/83, 3/25/83, 3/26/83, 3/27/83, 3/28/83, 3/29/83, 3/30/83, 3/31/83, 4/1/83, 4/2/83, 4/3/83, 4/4/83, 4/5/83, 4/6/83, 4/7/83, 4/8/83, 4/9/83, 4/10/83, 4/11/83, 4/12/83, 4/13/83, 4/14/83, 4/15/83, 4/16/83, 4/17/83, 4/18/83, 4/19/83, 4/20/83, 4/21/83, 4/22/83, 4/23/83, 4/24/83, 4/25/83, 4/26/83, 4/27/83, 4/28/83, 4/29/83, 4/30/83, 5/1/83, 5/2/83, 5/3/83, 5/4/83, 5/5/83, 5/6/83, 5/7/83, 5/8/83, 5/9/83, 5/10/83, 5/11/83, 5/12/83, 5/13/83, 5/14/83, 5/15/83, 5/16/83, 5/17/83, 5/18/83, 5/19/83, 5/20/83, 5/21/83, 5/22/83, 5/23/83, 5/24/83, 5/25/83, 5/26/83, 5/27/83, 5/28/83, 5/29/83, 5/30/83, 5/31/83, 6/1/83, 6/2/83, 6/3/83, 6/4/83, 6/5/83, 6/6/83, 6/7/83, 6/8/83, 6/9/83, 6/10/83, 6/11/83, 6/12/83, 6/13/83, 6/14/83, 6/15/83, 6/16/83, 6/17/83, 6/18/83, 6/19/83, 6/20/83, 6/21/83, 6/22/83, 6/23/83, 6/24/83, 6/25/83, 6/26/83, 6/27/83, 6/28/83, 6/29/83, 6/30/83, 7/1/83, 7/2/83, 7/3/83, 7/4/83, 7/5/83, 7/6/83, 7/7/83, 7/8/83, 7/9/83, 7/10/83, 7/11/83, 7/12/83, 7/13/83, 7/14/83, 7/15/83, 7/16/83, 7/17/83, 7/18/83, 7/19/83, 7/20/83, 7/21/83, 7/22/83, 7/23/83, 7/24/83, 7/25/83, 7/26/83, 7/27/83, 7/28/83, 7/29/83, 7/30/83, 7/31/83, 8/1/83, 8/2/83, 8/3/83, 8/4/83, 8/5/83, 8/6/83, 8/7/83, 8/8/83, 8/9/83, 8/10/83, 8/11/83, 8/12/83, 8/13/83, 8/14/83, 8/15/83, 8/16/83, 8/17/83, 8/18/83, 8/19/83, 8/20/83, 8/21/83, 8/22/83, 8/23/83, 8/24/83, 8/25/83, 8/26/83, 8/27/83, 8/28/83, 8/29/83, 8/30/83, 8/31/83, 9/1/83, 9/2/83, 9/3/83, 9/4/83, 9/5/83, 9/6/83, 9/7/83, 9/8/83, 9/9/83, 9/10/83, 9/11/83, 9/12/83, 9/13/83, 9/14/83, 9/15/83, 9/16/83, 9/17/83, 9/18/83, 9/19/83, 9/20/83, 9/21/83, 9/22/83, 9/23/83, 9/24/83, 9/25/83, 9/26/83, 9/27/83, 9/28/83, 9/29/83, 9/30/83, 10/1/83, 10/2/83, 10/3/83, 10/4/83, 10/5/83, 10/6/83, 10/7/83, 10/8/83, 10/9/83, 10/10/83, 10/11/83, 10/12/83, 10/13/83, 10/14/83, 10/15/83, 10/16/83, 10/17/83, 10/18/83, 10/19/83, 10/20/83, 10/21/83, 10/22/83, 10/23/83, 10/24/83, 10/25/83, 10/26/83, 10/27/83, 10/28/83, 10/29/83, 10/30/83, 10/31/83, 11/1/83, 11/2/83, 11/3/83, 11/4/83, 11/5/83, 11/6/83, 11/7/83, 11/8/83, 11/9/83, 11/10/83, 11/11/83, 11/12/83, 11/13/83, 11/14/83, 11/15/83, 11/16/83, 11/17/83, 11/18/83, 11/19/83, 11/20/83, 11/21/83, 11/22/83, 11/23/83, 11/24/83, 11/25/83, 11/26/83, 11/27/83, 11/28/83, 11/29/83, 11/30/83, 12/1/83, 12/2/83, 12/3/83, 12/4/83, 12/5/83, 12/6/83, 12/7/83, 12/8/83, 12/9/83, 12/10/83, 12/11/83, 12/12/83, 12/13/83, 12/14/83, 12/15/83, 12/16/83, 12/17/83, 12/18/83, 12/19/83, 12/20/83, 12/21/83, 12/22/83, 12/23/83, 12/24/83, 12/25/83, 12/26/83, 12/27/83, 12/28/83, 12/29/83, 12/30/83, 12/31/83.*

The effect on total staff size and distribution would be determined by conclusions on the need for technical expertise and evaluation and audit functions in Washington, the extent to which foreign national staff is reduced, efficiencies resulting from procedural changes, and the pace of conversion of skills mix. A preliminary estimate indicates that a net reduction of close to 200 U.S. direct hire positions overseas (assuming project managers for old projects are no longer needed) and 250 positions in Washington could be achieved by 1983 or 1984.

Potential Issues

1. A common view in A.I.D., held mainly by line managers, is that major changes in the manner of operation are not needed.

Elements of this view are that: the program increase for 1981 is minimal in nominal terms and negligible in real terms; at least \$200 million more is needed in 1981 to fund projects squeezed out of the budget in 1979 and 1980; steady expansion is possible by simply increasing the size of projects; the financing of infrastructure (which the Agency has done little of in recent years) will absorb large sums:

At annual rates of inflation of 10%, the nominal increases of 42% and 132% respectively in 1981 and 1983 over the 1979 level now being implemented are only 8% and 71%. Inflation is, of course, a mitigating factor only if the average size of project obligations is also increased by at least the rate of inflation. In the 1981 budget requests, the average funding for each project is higher for 1981 than for 1979. Yet 57% of new projects proposed are for less than \$5 million each and these together account for only 14% of the budget.

While the addition of projects from the "shelf" and participation in multidonor infrastructure projects could indeed account for the total increase in program in 1981 and possibly 1982, such additions would impose increasing strains on staff stemming from the Agency's projected-oriented approach and current project management pipeline.

2. Some in A.I.D. may be concerned that it may be more vulnerable to GAO, Congressional Committees and public criticism if its direct monitoring role in project management is diminished.

Reduction in U.S. direct hire staff overseas in accordance with this plan will have to be accompanied by devolution of increased responsibility for implementation, monitoring, and evaluation to contractors (contracted either to A.I.D. or, preferably, to the host country) or to the host country itself.

Unless staffing constraints force the change, it will be difficult for many A.I.D. project managers to recognize that a contractor or government will adequately implement a project if it does not monitor as carefully as they would have.

The degree to which current A.I.D. practices are required by law and Federal regulation or have been created and imposed by A.I.D. itself in response to audit recommendations, Congressional criticism and conservative legal interpretation will have to be analyzed.

A.I.D. will have to recognize that effectiveness can satisfactorily be measured in terms of the broader objectives of an activity, e.g., that if the government alters a policy, establishes an institution, increases inter-ministerial coordination or funds a program not previously in the budget, effectuation of such steps may be the most important objective of the A.I.D. activity. And in so recognizing A.I.D. will have to be prepared to explain and defend its effectiveness to itself and its critics.

Similarly, the effectiveness of intermediary programs will have to be measured, a priori, by analysis of the management capacity, fiscal responsibility and commitment of resources to development activities and, post hoc, by periodic evaluation of the work that is partially funded by A.I.D.

3. Expanded use of contractors to implement, monitor and evaluate projects and programs or to replace direct hire foreign nationals may cost more.

Although some increase in the use of contractors for monitoring and evaluation can be anticipated, change in the style of A.I.D. involvement would place more of that responsibility upon the recipient country or implementing organization.

Analysis of the relative costs of project management by A.I.D. direct hire staff and by contractors has never been brought to a satisfactory conclusion partly because it has been difficult to define comparative costs of overhead. The facts are sufficiently controversial to suggest that constraint on staff size should be the overriding factor in a decision on functions to be relegated to contractors.

Conversion of functions carried out by foreign nationals to contract status, however, could involve increased financial costs--on a one-time basis if costs to separate employees are high and, depending on the situation, on a continuing basis if contractor overhead is more costly than the attributed overhead and benefits provided to a direct hire employee.

Other costs may be incurred, again depending on the situation, if staff continuity and employee loyalty are affected by a change to contract basis. On the other hand, a mission may be able to attract skills that it cannot now pay for under the compensation classification system of the Department of State which governs salaries paid to foreign national employees.

4. The practice of periodic multiyear funding for the larger programs of A.I.D. raises the question whether it would be acceptable to countries to receive a commitment of funds in some years and no new U.S. commitments in other years.

This issue is more likely to be raised by a U.S. Ambassador to a country than by the country itself because the "lumpiness" will occur in commitments but not in disbursements, which represent, after all, the actual transfer of resources.

5. By reducing the size of its field missions A.I.D. may not be able to play as important a role as in the past in certain areas in which A.I.D. has shown a comparative advantage among official bilateral and multilateral donors:

A.I.D. has been unique in having a field staff who can identify and support progressive and reform-minded elements within both the government and the private sector.

The staff has helped to build local constituencies in support of new and innovative approaches to the problems of development.

Close and frequent contact between local leadership and U.S. project designers and managers has often been the critical ingredient in a successful institution-building project.

The field staff has been able to maintain the very close working relationships with host officials that have enabled it to analyze and adapt to changing circumstances affecting implementation of programs.

6. Benefits to poor people will be less directly measurable in larger programs in which A.I.D.-direct hire staff are less directly involved.

It will be incumbent upon A.I.D. to analyze the medium and longer term benefits expected from the programs and selectively to evaluate intermediary and government programs in order to identify problems and needed corrections.

7. If A.I.D. is not to be directly managing smaller and innovative activities that are of special interest to some members of Congress (in the general arenas of women in development, natural resource conservation, appropriate technology, etc.) It may want to ensure that intermediaries to carry out such activities exist and are capable of executing them.

Proposed A.I.D. Country Program Types

<u>Type</u>	<u>Criteria or Indicators of Appropriateness for the Program Type</u>	<u>Characteristics of the Program</u>	<u>Size of Program in \$ millions</u>	<u>Size of U.S. Direct Hire Staff</u>
I	<p>Relatively small program size not immediately amenable to expansion.</p> <p>Activities are typically small scale with short run objectives and limited impact on country growth & development.</p> <p>Human rights or commitment problems militate against official assistance reaching the poor.</p> <p>U.S. does not have irreplaceable in-country expertise resulting in unusual program effectiveness.</p>	<p>Intermediary programs only.</p> <p>Bilateral agreement possible but not necessary.</p> <p>Indicative planning allocation not applicable.</p>	n/a	0-3
II	<p>Size or location make the country relatively less important to U.S. foreign policy objectives.</p> <p>Middle income country needs technical assistance to help solve critical problems.</p> <p>Country not ready or capable of implementing larger sector programs.</p> <p>A.I.D. assistance does not exceed \$15m in 1981, though it may in later years.</p>	<p>Limited to 2 sectors</p> <p>Projects which, while not explicitly part of an overall development strategy, can be critical in promoting growth and BHN.</p> <p>Intermediary programs not through A.I.D. missions.</p>	5-15	5-10

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Proposed A.I.D. Country Program Types Continued

<u>Type</u>	<u>Criteria or Indicators of Appropriateness for the Program Type</u>	<u>Characteristics of the Program</u>	<u>Size of Program in \$ millions</u>	<u>Size of U.S. Direct Hire Staff</u>
III	<p>Current program covers more than 2 sectors.</p> <p>Country is among larger Sahel countries.</p> <p>Country not ready or capable of implementing larger sector programs.</p> <p>Status of country commitment is such that a demonstration approach with direct U.S. involvement is most effective.</p>	<p>Gradual reduction to 3 sectors</p> <p>Consists mainly of projects but can include sector programs.</p> <p>Intermediary programs not through A.I.D. missions.</p>	15+	10-55
IV	<p>Country has or will initiate a sector development plan consistent with A.I.D. objectives to meet basic human needs.</p> <p>Country has institutional capacity to development and implement sector plans.</p> <p>Country's broad development strategy is aimed at growth with equity.</p> <p>Country is undertaking broad structural reforms.</p> <p>Need for external assistance to finance reforms or expansion of programs.</p>	<p>Multi-year obligations.</p> <p>Sectoral or cross sectoral orientation.</p> <p>Possibly broader, development plan orientation.</p> <p>Policy change or program commitment by country required.</p> <p>Intermediary programs not through A.I.D. missions.</p>	20+	8-15

Country Programs by Proposed Type

Illustrative

TYPE	<u>1979</u>	<u>1981</u>	<u>1983</u>	<u>1985</u>
# I				
No. Countries	5	12	12	12
Program, \$ millions	4	38	47	84
U.S. Positions	12	10	4	34
# II				
No. Countries	8	8	10	10
Program, \$ millions	22	56	129	162
U.S. Positions	33	61	89	81
# III				
No. Countries	44	35	24	20
Program, \$ millions	778	923	1,127	1,270
U.S. Positions	977	843	559	482
# IV				
No. Countries	-	5	13	17
Program, \$ millions	-	300	850	1,556
U.S. Positions	-	67	187	209
Total				
No. Countries	57	60	59	59
Programs, \$ millions	803	1,317	2,153	3,072
U.S. Positions	1,022	981	839	775

IX. Procedural Changes that Hold Promise for Direct Hire Staff Savings

- A. A.I.D. has for some time been aware of the potential benefits of a policy to fully fund each grant and loan project at the time it is first negotiated with the recipient government (with conditions for disbursement to be used to ensure

effective and agreed use of the obligated funds), but has not had the flexibility in budget levels to fully implement such a policy or the will to implement it partially.

Savings in staff years could result through elimination of the need to renegotiate obligating documents and procurement contracts annually, justify incremental funding in the budget presentations to Washington, OMB and the Congress, and reconsider the project's relative priority at each stage of several annual budget cycles.

A.I.D. program managers proposed \$500 million for new projects in 1981 and \$1.2 billion for continuing projects (including some that will, by their nature, always require annual funding). The following amounts would be needed in 1981, in addition to the \$1.7 billion requested for new and continuing projects, to find the estimated remaining costs of projects begun in 1981 and earlier years:

<u>Initial Year of the Project</u>	<u>\$ millions</u>
1978 and prior years	261
1979	249
1980	369
1981	291
Various (DSB & PDC projects)	<u>230</u>
Total	1400

Even if A.I.D. eliminated all new projects from the 1981 budget the funds saved would be insufficient to fully fund all projects already in the portfolio. However, program managers will be instructed to reduce the number of proposed new projects in 1980 and 1981 in order to free up funds to complete some ongoing projects. By 1982 the "mortgaging" of funds for projects in the portfolio can be substantially reduced and new budget will be available for programs carried out by intermediaries and larger country projects.

B. ~~The A.I.D. Administrator will direct that~~ ^{take} steps be taken to implement the program modifications and the additional changes listed below beginning in 1980. ^{Temporary staff reductions} ~~Accompanying net~~ ^{will help force compliance with these and other changes. Final} staff reductions will ~~follow the changes.~~ ^{not be completed} until 1983 or 1984.

1. An increased proportion of contracting and other procurement steps will be undertaken by the recipient government instead of A.I.D. itself. Direct A.I.D. involvement will require approval on an exception basis.
2. Supervision and management of budget allocations will be decentralized.
3. Technical support and policy functions in Washington will be consolidated.
4. OMB circulars calling for use of contractors when such use is cost effective will be vigorously applied. Functions that are potentially more cost effective under contract include: data management, fiscal audit, voucher examination and travel arrangements.

DRAFT

MEMORANDUM

TO: AA/PPC, Mr. Alexander Shakow
FROM AA/SER, D. G. MacDonald
SUBJECT: A.I.D. Program Size Study

We have reviewed the draft memoranda in which you comment upon and describe a plan of action for responding to the concerns raised by Mr. Ehrlich in a memorandum to the Acting A/AID regarding the projected size A.I.D. program and our ability to manage a larger level of program resources without an increase in staffing and, more likely with a reduction in the staffing levels currently authorized. We agree that a meaningful response to these concerns will require special focus over the ensuing weeks and that several of the areas identified for such a focus are appropriate. We do wonder, however, whether a comprehensive examination of them would be possible in the time frame set forth. The nature of the problem would seem to suggest that a comprehensive response to the question may have to be provided over a longer period -- phasing the responses to initially cover those things which can be done immediately to reduce direct-hire staffing requirements and reporting on others as the various analysis/assessments are completed.

We are pleased to note the paper set aside a reorganization of the Agency as the primary means for accomplishing the objective. While we recognize that any major changes in the way the Agency does its business is certain to have implications on the way it is organized, it is nonetheless reassuring that a reorganization is not being proposed at the outset as a "cure all". As you know, the Agency has experimented with various organizational arrangements for carrying out the U.S. economic assistance

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program. However, as this Bureau commented during the most recent major reorganization, we need to be sure that the current structure is "broken" before we attempt to fix it, and to avoid at all cost change for the sake of change.

A second central point is that we hope the effort will not result in attempts to "squeeze more blood from the old turnip". Over the last several years, managers throughout the Agency have been forced to take on additional responsibilities, disproportionately to the levels of staff authorized. We believe that the Agency has now reached the point where it will not be possible to do more with fewer staff without making fundamental change in the way we conduct our primary business, the planning, development, and implementation of our programs.

Other general observations are as follows:

First, Congressional consultations should begin early-on if we are considering moving toward a general posture of austere staffing in Washington as well as overseas, particularly if in our overseas posts we are considering the World Bank model. An overriding factor in developing a response to Mr. Ehrlich's concerns is the extent to which the Congress is willing to unshackle A.I.D. from the demands it makes on us and to curtail its labor intensive involvement in everything the Agency does. Also, we need to know whether the Congress would be willing to give us the relief needed in the operating expense budget, including lifting the limitation on AID/W expenditures. Both factors argue for Congressional consultations beginning early-on rather than limiting such consultations only to instances when "radical changes are proposed". More to the point, with Congressional understanding and

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agreement, we could possibly begin in a relatively short time-frame to contract for a number of functions currently performed by direct-hire staff. OMB Circular A-76 offers us this opportunity in certain functional areas and we will soon be discussing several "candidates" with the appropriate senior staff. I would predict that the cost would be higher in comparison with the cost of existing methods of operations which brings us back to the operating expense budget problem.

Secondly, I have become increasingly concerned that in our zeal to assure that sufficient staff resources are deployed to those functions adjudged to be on the front line of development, (e.g., field staff, Geographic Bureaus, some Central Staff offices, etc.) there is a natural tendency to ignore the myraid "administrative" mandates to which the Agency is also obliged to respond. While I support the widely held view that staffing associated with our primary mission, e.g., development, should be highest on our list of claims, we all should be mindful that frequently compliance to the "administrative" mandates is not optional and adequate staff resources must therefore be assured. Congressional interest in Agency's administrative matters remains consistently high. Involved is the provision of a wide array of management, programmatic and operational services and resources without which AID's line managers here and abroad could not carry out AID's business. Also involved is, control on the use of those services and resources for which the AID Administrator is held fully accountable by the Congress and the public. Unless adequate attention is routinely given to these areas, AID senior staff finds itself in a position with the tail wagging the dog as we attempt to explain administrative neglects on the Hill. Our program, in the final analysis, is hurt by it.

Thirdly, I believe there is considerable merit in drawing upon our historical experiences for answers to aspects of the problem. We know, for example, that centralization of the program and management services into a single organization in the early seventies resulted in large reductions in the number of staff resources devoted throughout the Agency to these functions under the decentralized arrangement. A total savings of _____ was achieved. Thus, as a general proposition, centralization of program and management services accomplished the goal of achieving substantial staff savings and should be continued. Your review might look at the areas in which duplicative staff have been deployed to the Bureaus over the last several years to assure that these arrangements are cost effective. I have the impression that considerable proliferation has occurred with our technical staff, for example, which in some cases is clearly appropriate and necessary, but in others, fits the category of nice things to do but are not critically important to our broad mission. A recent study of a Geographic Bureau concluded that technical staff in that environment were underutilized. Moreover, we might consider matching functions which are primarily cyclical in nature (e.g., budgeting) should probably be matched with functions which have a somewhat different demand schedule so as to make maximum use of staff time. There are myriad examples in the program areas. For example,

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Turning to the areas identified for focus in the proposed study, you should be aware that within SER, several recent initiatives bear directly upon the broad goal of demonstrating that we can manage more program resources with existing direct-hire staff. These initiatives stem from the increased agency-wide demand for SER Bureau services and the need to improve the level and quality of the services with limited allocated resources. A guiding principle for these changes is the desire to increase collective productivity through improved systems, managerial approaches, etc. Among these initiatives are:

- (1) A recent study of subsequent and restructuring the Communications and Records Management function. The primary thrust of the study was to improve the systems network, associates with the service, improve collective and individual productivity and staff morale, expand the use of available technology/methology in order to make the service more responsive to client users. We believe these goals were met based on early comments from impacted employees.
- (2) A study of the Agency-wide System for Automatic Processing (ASAP) which has the immediate objective of identifying means, in coordination with managers, for saving both time and labor in A.I.D.'s day to day operations through the application of automation technology. Booz, Allen and Hamilton, the firm conducting the study has concluded in its preliminary report that "if A.I.D. applies automation to the fine study process (ABS, CP, PID/PP, PIO/T and C, Non-Project Assistance), there is potential for significant improvement in office productivity and efficiency. We believe this report has real potential for accomplishing the goal of doing more with fewer staff and should be taken into account in developing the Agency's response to the Ehrlich memorandum. I am attaching for your review a copy of the Booz study outline.

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(3) We've also conducted a study of the Agency's Excess Property Program which is currently managed by the SER Bureau. Again, the object was to take a critical look at improving the management of this program in relation to changing external and internal requirements with the smallest possible staff. We've just received the contractor's report on this study and will soon be in a position to decide what actions and ultimate savings will be forthcoming.

(4) Work on development of a Project Manager Handbook is now underway. When completed we anticipate measurable savings in project managers staff time as they draw on the detailed information contained in this Handbook which is currently obtained in an unsystematic, ad hoc basis.

Other examples are.....

3

MEMORANDUM

TO: Acting DAA/SER, Mr. James T. McMahon

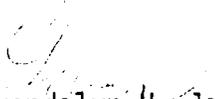
SUBJECT: AID Program Size Study

Attached are copies (two sets) of the papers you requested, including Section IX of the basic paper from PPC and earlier papers written by Dave McMakin (SER/MO) and Rob Berrett (FM/BUD) on the subject.

We received last night/this morning comments from SER/DM, SER/MO, and SER/CM -- copies of which are also attached. You will note that the CM comment was provided by telephone and refers to specific audit reports which, if used, should be cited by their precise titles. CM has agreed to provide the references.

Also Mary Wampler called to say that she too had comments and will be providing them forthwith. COM has no comment.

As soon as the supplemental materials are received, we will deliver them to you directly.


Gwendolyn H. Joe
SER/MP

Attachment
a/s

IX. Procedural Changes that Hold Promise for Direct Hire Staff Savings

- A. A.I.D. has for some time been aware of the potential benefits of a policy to fully fund each grant and loan project at the time it is first negotiated with the recipient government (with conditions for disbursement to be used to ensure

effective and agreed use of the obligated funds), but has not had the flexibility in budget levels to fully implement such a policy or the will to implement it partially.

SOME Savings in staff years could result through elimination of the need to renegotiate obligating documents and procurement contracts annually, justify incremental funding in the budget presentations to Washington, OMB and the Congress, and reconsider the project's relative priority at each stage of several annual budget cycles.

A.I.D. program managers proposed \$500 million for new projects in 1981 and \$1.2 billion for continuing projects (including some that will, by their nature, always require annual funding). The following amounts would be needed in 1981, in addition to the \$1.7 billion requested for new and continuing projects, to fund the estimated remaining costs of projects begun in 1981 and earlier years:

<u>Initial Year of the Project</u>	<u>\$ millions</u>
1978 and prior years	261
1979	249
1980	369
1981	291
Various (DS& & PDC projects)	<u>230</u>
Total	1400

Even if A.I.D. eliminated all new projects from the 1981 budget the funds saved would be insufficient to fully fund all projects already in the portfolio. However, program managers will be instructed to reduce the number of proposed new projects in 1980 and 1981 in order to free up funds to complete some ongoing projects. By 1982 the "mortgaging" of funds for projects in the portfolio can be substantially reduced and new budget will be available for programs carried out by intermediaries and larger country projects.

B. ~~The A.I.D. Administrator will direct that~~ ^{take} steps be taken to implement the program modifications and the additional changes listed below beginning in 1980. ^{Temporary staff reductions} ~~Accompanying net~~ staff reductions will ~~follow the changes~~ ^{help force compliance with these and other changes.} ~~not be completed~~ until 1983 or 1984.

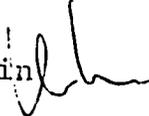
1. An increased proportion of contracting and other procurement steps will be undertaken by the recipient government instead of A.I.D. itself. Direct A.I.D. involvement will require approval on an exception basis.
2. Supervision and management of budget allocations will be decentralized.
3. Technical support and policy functions in Washington will be consolidated.
4. OMB circulars calling for use of contractors when such use is cost effective will be vigorously applied. Functions that are potentially more cost effective under contract include: data management, fiscal audit, voucher examination and travel arrangements.

Handwritten notes:
will help force compliance with these and other changes.
Temporary staff reductions
Accompanying net
not be completed
AS
of
take



memorandum

DATE: JUN 29 1979

REPLY TO
ATTN OF: SER/MO, C. D. McMakin 

SUBJECT: FY 1978 Program Increase with the same or lower staff

TO: AA/SER, D. G. MacDonald

THRU: SER/MO, James  Thompson

Having recently read Alex Shakow's useful initial draft of June 12th on this subject, I am impressed that we are about to again attempt to squeeze more blood from the old turnip. While there may have been some in it once, it has long been dry. For this reason, I am providing these reactions for whatever use they may be to you.

First, I am impressed that no comprehensive systemic changes are proposed. Rather, the changes are picking at the margins -- but within the same underlying structure. Specifically:

-- Marginal Probability for Savings. All of the ideas for staff savings -- while useful -- are probably of marginal collective effect because they have been bled dry over the years. To try to trim a country program there and be more efficient here is not likely to produce a significant saving overall. When SA, new country programs and the real foreign policy difficulty of reducing the growing number of country programs are weighted together, these efforts to identify savings will likely require as much time to staff out as they will save collectively.

-- Continued Basic Structures. No suggestion is made which would really drastically effect the way we do business or how we are organized to do it. Hints exist, but without a basic mandate, will likely only further confuse (and hence increase staff time) rather than clarify. For example, the IBRD regional office model might work if we were willing to adopt a new style of assistance. But the Africa experience would suggest that regional AID offices and country staff actually delay program development and implementation unless authorities are more clearly sorted out than they have been.

In short, we have exhausted the degree to which we can modify the basic blue print of the 1961 AID apparatus without collapse of the structure. We need a new structure if we are to survive. The 1961 idea was rather deliberate in that it created staff at several levels in order to place capacity with responsibility. It was an effective but expensive idea. While we have cut and



cut it again (and again), we still have (thinly):

-- Functional and geographic bureaus with technical personnel in AID/W;

-- Bilateral missions and occasionally regional technical staffs overseas;

-- Delegations of Authority and extensive AID/W pre-authorization review of proposed projects;

-- More labor intensive work (more social, environmental and other special analyses; better work plans; more competitive contracting; more technical assistance but less capital or program assistance; etc.), more management (more contractors, more performance monitoring and evaluation) but fewer personnel and no reduction in the pressure of external audit, congressional oversight and cognizance.

-- More demand for compliance, but substantial areas where we no longer are able to really comply with the full intent of law or regulations, giving the appearance of efficient staff levels (for example, inventory management, records management, project management, contract monitorship). Mistakes and gaps which are discovered then give rise to adverse audit findings and the conviction that more auditors are needed to discover more areas where people are in non-compliance.

One could elaborate on this, but the point is clear. We should quietly re-think some of our basic assumptions about how we organize to do our work if we are serious about our commitment to:

-- maintain quality (and stay out of trouble);

-- increase program volume (more money at least);

-- maintain present basic resource transfer mechanisms (technical assistance and institution building); and

-- maintain or reduce present staffing (recognizing that many functions are understaffed now).

One approach to this might be to design a paper model of a minimally staffed Agency imagining that we were starting from scratch. To do this, one might agree on certain initial organizational and procedural precepts and then systematically apply them to the construction of the model. The ideas and

issues contained in this model could then be discussed and decided with an overall rationale and integrity. We might even end up with some efficiencies we had not imagined possible. For example, basic precepts might include:

-- Commitment to the role of planner, coordinator and financial agent, having implications for the kind and number of staff we employ and the degree of direct involvement in each country program, but suggesting greater engagement at the planning stages with other donors and AID-financed intermediary organizations.

-- Making sharper distinctions between the several roles of Agency units, causing more specialization, implying economies of scale, more expert respective talent pools and an enhanced role for comprehensive country programming.

-- Delegation of program elements to large successful functional intermediary organizations -- or the stimulation of new and relevant ones -- enabling AID to concentrate on planning, coordination and resource allocation.

-- Generation of consortia with other donor organizations, establishing separate and capable management capacity for the larger projects initiated.

-- Refusal to engage in "retail" project management, insisting that AID offices and missions, elaborate sufficiently large (minimum sizes) scopes of work, with the result that major impact is assured and separate management capacity by the contractor/grantee guaranteed.

-- Insistence that AID missions identify areas of assistance where pilot project replication is possible and planned in the near term, funding the whole thing from the start.

-- Commitment that systematic methods will be used to assure that future policy initiatives are realistically costed before adoption, especially in terms of their workload effect at the mission level (for example, the theory of savings with host country contracting versus the reality of substantial AID involvement).

Certainly, there are other ideas. But I am confident that if we could gain agreement on these foundation stones of an "organizational philosophy" that a significantly larger portfolio could be managed with the same or fewer staff than at present. Without such a basic re-thinking, I fear we are only in for more frustration and further over-extension of our scarce human capital. This will result in further loss of performance quality.

Overjoyed
SER/MA

300 30 1070

SER/HD, James L. Thompson . / Mr. James L. Thompson

Doing More With Less

AA/SER, D. G. MacDonald

I share with many in AID a concern that the draft proposal to do more with fewer people makes assumptions from an undefined resource base - that is, the question of how our resources today fit or do not fit our program now and what has already been done in the economy directions proposed (and not for the first time) need to be realistically examined, including the reduction of levels of staff of various kinds, and shifting to other means to get work done. We cannot, I believe, simply assume that a significant cut of overseas direct-hire positions is practicable any longer if the program remains steady or increases.

While there is truth in the belief that almost anyone can always achieve more, the AID classic approach is reminiscent of the fiscal policy established by Churchill as Chancellor of the Exchequer in the 1920's. He stated that military budgets would be based upon the planning assumption that war would not occur for ten years, with a movable base advancing the whole assumption each year. As I recall, the assumption was still in effect in the thirties, just before war started. AID has similarly assumed that it can cut support people any time it wishes to do so, from any base. We did this in AID/W, and effectively eliminated AID/W property inventories through one cut of staff in 1972 with centralization, and others up to 1978. Now we are in trouble with Congress because of non-compliance and are putting necessary direct hire slots back to keep the books straight.

Missions have similar situations, right now. Overseas, the many missions which SER/HD staff have visited in the past year are desperate because of reduced staff to do work still demanded by the program. Vehicles don't run because we no longer have our competent shops or supervision. Property records are often poor or non-existent, contrary to statute. Ability to even prepare legible purchase orders is now lacking in some missions, as GAO has noted. In most places we have one AID American administrative manager, who must work competently with up to 23 of AID's 33 handbooks to ensure proper mission support and adequate performance. He now typically has few locals, and those are largely low in competence, as a career foreign national force has to a great degree disappeared. The new American Ambassador in one South American AID mission has observed that a local could probably be the AID Executive Officer, without reference to the skills required, and statutory demands for an American officer to do certain things, and without suggesting that his own Administrative Officer position, with far less complexity of responsibility, could be likewise filled. So goes the illusion around the world.

Realities:

- U.S. Direct Hire Full-Time overseas strength has increased some 15% since 1976. But, at the same time, part-time employment has risen by 35%, without ceiling constraint. Effective 10/1/80, OMB Bulletin 79-11 will impose a ceiling on part-time employment for the first time. Under this limitation, if today's NON-FTEPP overseas staff of 465 work 32 hours a week each, 372 new ceilings will be required within AID's existing overall limitation.
- Foreign national full-time overseas employment has remained steady since 1975. But, reported foreign national contract employment has risen by 300%, and now equals direct hire numbers. Unreported are possibly thousands, including those under end product service contracts and under JAO and employee association contracts, in what were once AID direct-hire functions and are still AID financed support activities.
- Of some 2,000 remaining direct-hire foreign nationals, a large number relate to executive, program and project Americans. The 1980 ABS calls for 922 locals in this category.
- The world's AID Controllers employ about 430 locals. Auditors account for some more. Both are relatively irreducible numbers as long as we do business the way we do.
- There is some core direct hire number necessary for administrative support. We cannot operate a mail and communications distribution system, for example, and certain other functions through contracts. However, the 1978-80 ABS already proposes annual cuts in support locals of 12% each year.
- State has, essentially, no more employment ceiling to give us, even if JAO support works and can be expanded on AID's behalf.

Conclusions:

- We can undoubtedly do some more with what we have.
- We need to streamline programs and thin out the ones with low impact, high overhead.
- AID ought to change its way of doing business, simplifying and reducing volumes of procedures and rules.
- Well stated program contracts are the way to reduce direct hire and operating expense support.
- Contracts for some more logistic support are feasible. SER/NO is working on this aspect now.
- We cannot depend on State operations to either significantly expand support services, or to save AID ceiling if they do. If they do, OE costs per unit of service will also rise, and not decrease, and quality and levels of service may decrease still further.

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- =- AID must be very circumspect about support staff reduction possibilities for the future.
- It is not a cut of staff in Washington which will eliminate "procedural bottlenecks characteristic of current practices". This is a contradiction in terms and without change in procedures themselves, a cut might even further slow down the program process. Past cuts of communications staff have already had an adverse effect which we are trying to correct.

SER/MO:JLThompson:saf:7/30/79

UNITED STATES GOVERNMENT

Memorandum

TO : SER/MP, Mr. Richard F. Calhoun

DATE: July 30, 1979

FROM : SER/DM, Paul Spishak *Paul*

SUBJECT: Draft Plan for Expansion

We have only two comments:

1. We should avoid making early estimates of the potential staff savings that might be achieved from the proposals--at least until the staff work is completed. People will remember the 450 positions to be saved (p.7) long after the assumptions on which the savings are based wither away.
2. Page 13 of section IX lists functions "...potentially more cost effective under contract include: data management, fiscal audit..." There is no analysis to support this. A-76 does not even list a function called "data management." Rather, it lists several functions under Automatic Data Processing. If we are to include examples, we should select a variety from A-76.



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Joseph Watkins, SER/CM

Regarding p.g. (#3) ... Contracts may cost more... Based on a study done for DA/AID believe conclusion was somewhat different. Perhaps FM should be asked to take another look if we make this statement. Regarding the theme of placing more responsibility on the Host Country for monitoring, a recent AG study indicates this has not worked well to date. Not likely this will change in the immediate future.

Provided by phone

July 30, 1979

August 1, 1979

MEMORANDUM TO: Gwendolyn Joe, SER/MP
FROM : Mary ~~E.~~ Wampler, AA/SER/SA
SUBJECT : Draft Plan for Expansion of AID Program
With Stable Or Reduced Staff Ceiling

1. The paper still does not address a major consideration - Congressional concerns. AID was severely criticized last year for not having technical personnel overseas. This year the House debate on the AID Appropriations Bill contained criticism of the large capital projects still being financed by AID in some countries. Can we get Congressional acceptance of the proposed changes?
2. The authors of the draft plan should also review a selection of Auditor General reports regarding the problems encountered when AID has failed to monitor adequately programs financed by AID -- whether host country implemented or utilizing the services of an intermediary. It will not require many "horror" stories to offset the benefits currently being reaped by private sector lobbying with traditional anti-AID Congressmen and Senators.
3. To develop the capability of many host governments to manage their own implementation in a satisfactory manner will require much more public administration assistance than AID is currently providing as well as a stable government which will use those talents when they have been developed.
4. Forcing AID personnel to accept the new policy of less direct AID monitoring will not alter the capability of the host government to provide an adequate substitute. Nor will it assure AID of good management. See the recent Host Country Contracting Audit Report for examples of what happens when AID does not monitor.

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Alexander Shakow, DA/AID (Acting)

THRU: M. Douglas Stafford, FM ^{MDC}

FROM : Rob L. Berrett, FM/BUD *R. Berrett*

DATE: JUN 18 1979

SUBJECT: Personnel

I feel compelled to register a - seemingly very small - minority opinion.

The basic premise of the current personnel exercise is that AID indeed can implement a sharply expanded program with a reduced work force. I would challenge this flat assumption.

Apparently few others share my concern on this point. I was genuinely surprised at the lack of opposition to the notion during the last Executive Staff meeting. Africa Bureau Mission Directors were more cautious, but still generally indicated their approval. I can't help but wonder how many of these people affirm capability to handle a doubled program by 1983 with current staff levels (as I would) because they are certain (as I am) that the probability of achieving a program of this magnitude is nil?

Even if the Agency can implement a program twofold larger, should it? And if it does, what will be the added cost in terms of higher risk, reduced efficiency, negative political fallout from higher pipeline and more failures; and when will these resultant costs begin to show?

Expanding programs with no increase of personnel has been a familiar refrain in recent years. Since 1976, the DA level has gone up over 70%, with a constant staff. Was the Agency so overstuffed and/or so inefficient back then, or is our management in the field now stretched perilously thin - as I firmly believe?

Who can state just what losses the Agency is already sustaining as a result of inadequate or insufficient field management? How much more economical and effective would our assistance be if time and talent existed to ensure the best possible project designs, close monitoring and prompt remedial action when trouble is foreseen, more careful screening of contractors and tougher negotiations, better



coordination with the cooperating government and other donors, etc. etc? Perhaps my concern then is not so much that the Agency can launch a larger program, but that it will - and the costs will mount.

One hears the argument that a prerequisite to an expanded program is a solid case that it can be digested within present personnel ceilings. Granted - but again I ask whether this should be done. To do so not only immediately forecloses the possibility of added personnel - which no one denies are needed now (Explain this in the context of assurances that a substantially greater program can still be handled!) but also raises the specter of a cut in the event the program is not expanded.

As responsible managers are we fully prepared to engineer a substantially larger program and incur the additional costs and risks? Phrased differently, to what extent do we have at least a concomitant responsibility to communicate clearly to IDCA, OMB, the Administration, and Congress the trade-offs involved? Behind this question is my conviction concerning the imperative to register the fact that there is indeed a limit - and, in the present overall context, we are very close to being there!

The main thrust of the current exercise - the latest of a series - is focused on programmatic efficiencies in the field. This is surely important, although one might question just how much slack still remains, but the larger, potentially more fruitful area receives short shift - the proper placement and use of all the Agency's ceilings. Foremost, this translates into the AID/W vs overseas issue, and unpalatable as it presently seems to be in most circles, at some point there simply must be recognition of the imperative to transfer more staff to the field - especially if/as program levels increase. (This does not hold of course if the Agency is prepared to sacrifice its BHN character and redirect its efforts to wholesaling assistance.) Certainly, AID/W can handle a much expanded program. And perhaps this would be a very good thing since it might tend to curb somewhat the time they have to conjure up additional administrative burdens to levy on beleaguered field staffs.

Doubtless many operational adjustments and organizational realignments are needed now, and would significantly enhance the Agency's overall efficiency. However, since the indicated purpose of this review is to make the case for an expanded program, I see little prospect hard issues will be dealt with or any substantive decisions forthcoming. Actions

h8

do not normally flow until forced - a point the Agency has not yet reached - which leaves us to the vagaries of the "invisible hand." I think this regrettable.

Can the Agency afford to preserve the sacrosanctity of certain organizational entities which happen to have their own constituencies while constantly stretching thinner and thinner the troops in the field? And can we continue to pursue the multitude of interests peripheral to the Agency's main business of developmental assistance? I submit that we must not.

In sum, what I think I'm trying to communicate is a deep concern over the continuing trend of expanding programs - together the parallel growth of administrative overburden - with no increase in implementation workforces in the field. The Agency surely can handle a program larger than the present one, but a price attaches:

- The character and effectiveness of the assistance.
 - The cost of its implementation.
 - Organizational goals.
 - Increased risk
- etc., etc.

I believe this should be carefully considered, and communicated to those concerned.

cc: Mr. Robert H. Nooter, A/AID (Acting)

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

July 31, 1979

MEMORANDUM

TO: AA/PPC - Mr. Alexander Shakow

SUBJECT: Draft Plan for Expansion of the AID Program with Stable or Reduced Staff Ceiling

In your July 25 memo on the above subject, you requested comments on the Draft Plan by Wednesday, August 1, 1979. The following represent my comments which I have developed, taking advantage of reactions from some PM staff and Joe Toner who, as you know, is working in PM on the implementation of the Obey legislation. I shall make some general observations, then gear specific comments to specific sections of the Draft Plan.

GENERAL. My first comment is very much related to the Obey principle, i.e., AID must insure that in its planning and policy deliberations and decisions, overseas experience in analyzing, negotiating and managing development programs in the field should be brought to bear. I believe the paper is a prime example of the need to implement the Obey principle. The major weakness in the Plan is that it shows a lack of overseas experience in the realities of putting together and managing development programs on the ground over there.

The overall model for the changed programs and management of them appears to be close to that of the West Germans, Canadians and the British. It would be most appropriate--and I am sure revealing--to study the problems these other donors face in accomplishing their tasks. Even without a specific study, those of us who have spent many years in overseas missions have acquired certain perceptions of their problems through associations and discussions with them. Their most often voiced problems are: inadequate personnel on the ground to plan, monitor and evaluate their programs; inadequate staff on the ground to accomplish or insure logistic support (e.g., "get necessary commodities through the port"); a sinking feeling that they are failing in their programs because they simply must depend too much on others (host country officials, contractors) over whom they neither have control nor can they monitor closely enough. Because of these deeply felt inadequacies, these other donors are forced to piggy-back on programs and projects of IBRD, ADB, and other multinational assistance organizations.

There is another observation related to other donor programs that is not often talked about, but which has a significant impact on all Western

World donor programs in developing countries. The fact is that because we have had resident USAIDs, we have had the capacity (to a larger or lesser degree) to do a considerable amount of analysis of the development needs of our hosts. Our USAID, in almost every case, becomes the repository of information on economic and development conditions in our host countries. We then become the source of such information for other donors, including the multilateral banks. Because of this, we are not only able to play a key role in coordinating assistance in those countries and to a great extent influence other donors in their decisions on the type of programs and projects they undertake. This aspect of our unwritten assistance may not be quantifiable, but I assure you is significant.

There are also tactical considerations both internal administration and with Congress as follows: In appearing to acquiesce in a plan for developing and managing increased program levels with fewer personnel, we could be facing a major trap. Were OMB to later hold our actual FY'83 estimates to current levels, they could insist on even deeper cuts in view of our apparent agreement to "do more with less."

There is also a mine field in assuming that a slack in the field can be accommodated from AID/W. If field numbers are significantly reduced, it is hard to conceive that Senator Inouye or Bill Jordan will pass the opportunity to belabor us on an unbalanced field-AID/W direct hire ratio.

SPECIFIC COMMENTS - PROGRAM TYPES AND MANAGEMENT STYLE. I certainly agree with the proposition in the introductory paragraph that "AID may need a variety of approaches if it is to get maximum impact...." It appears, however, that the theme of the Plan is to restrict the variety of approaches insofar as AID direct management is concerned. The principle of using intermediaries in most instances for execution of programs and projects is, I hope, acceptable to all, but this still requires for effectiveness that USAIDs have sufficient staff to monitor and serve as U.S.G. front person with both host governments and official contacts with other donor governments. I realize the purport of the Plan is to lessen the direct participation of DH program and project officers, but our past experience indicates that in most country situations intermediaries such as PVOs and contractors will have a very difficult, and in many cases impossible, task without USG official participation--to smooth the way; to run interference; to negotiate agreement with governments.

If our preferred mode for contracting is to use the host country contract route, again personal experience has shown that a knowledgeable AID officer must be close at hand for almost daily consultation on AID requirements in administering AID-funded contracts--host country and direct AID. If we stop requiring competitive contracting, minority consideration, cost comparisons, etc., we may be able to allow less close monitoring, but I don't see in the Plan specifics on reduction of AID-specific requirements

for contracts, nice as this would be from the practitioner's point of view. I question whether either the Congress or the GAO will allow us this relief from direct accountability.

I have a serious problem with a from top-down imposed policy on the minimum size of projects. The small project is more often than not the linchpin in a whole series of sectoral development plans. The banks, by policy, don't finance the small ones. Theoretically the host country or another "smaller" donor might be expected to finance them, but it is more often than not a question of appropriate timing and control of the smaller activity. I fear, based on experience, that the narrowing of our application of funds to one or two sectors with larger obligation will come shattering to the ground-- "for want of a nail"--without the small piece of the action that may be the missing ingredient. The \$5 million LOP minimum will, no doubt, tend to put us further away from the poor (in search of larger projects) and hence mitigate against AID's direct effect on the BHN principle. Under the minimum project cost rule, if I were a Mission Director, I would be searching at all times for the infrastructure project or other less direct contact projects in order to obligate more money.

On page 2 of the paper, second paragraph under "The Plan," which deals with tailoring programs with the host country and using AID direct hire personnel to influence policy decisions of the host government, there is one element of the inevitable situation not dealt with, but most important - desire. We talk of a country's "need, commitment and capacity," all of which are required and can be taken account of in objective analysis, but the most important factor and principal element of success in the real world out there is a desire to make the hardest of decisions absolutely required if effective development efforts are to be successful. Influencing our hosts in terms of policy decisions is critical to the success of our programs. It is, however, the most difficult part of our work to accomplish. In earlier days, with different fundamental goals and types of projects, the most successful element contributing to our influence capability was more money, e.g., add a commodity import element to our program along with a fundamental institution-building technical assistance effort. The CIP was the sweetener which made the tougher project palatable. Today, however, when we are, by congressional mandate, trying harder than ever to keep ours and our hosts' attention on the most difficult problems affecting basic human needs and equitable growth, the task of influencing policy decisions is an incredibly difficult one. First must come the acceptance through real conviction of the validity and political as well as humanitarian need for concentrating on the plight of the poor. To get to this conviction on the part of our hosts is an intensive long term, single-minded process. Most Mission Directors, I'm sure, will tell you that during the whole of any first tour in any country, they will have just scratched the surface in terms of persuasive dialogue. This takes months and, in many cases, years of convincing and understanding, backed up by a lot of analysis and, not the least import, personal relationship.

MANAGER TO MANAGER

-4-

Despite general disclaimers, the thrust of the Plan would inevitably increase the AID/W complement while reducing the field complement. This would appear a non-starter on the face of it, because I have no doubt that we would require at least current staff levels in AID/W and overseas to "modify" project pipelines and conduct what are sure to be painstaking negotiations to do so. In the absence of this approach to the pipeline problem, there is just no reasonable (or understandable, on the part of our hosts) way to move to the Plan-type operations before FY 1983.

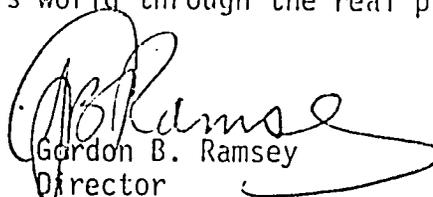
The Plan in one part (page 7) states that a RIF will be unnecessary. In another section (last page table), it posits a much reduced overseas level which we here in PM could not accomplish without a RIF. As you know, a RIF would more than likely wipe out the Agency's so far successful effort over the past few years to achieve today's skills mix.

The assumption is that local foreign national direct-hire employment can be readily shifted to contract needs qualification. While it may be possible to gradually shift more support personnel to contract, similarly moving professional employees--who in many instances operate in lieu of U. S. direct-hire employees in planning or managing projects or activities--would be inappropriate. A further complication would be that moving direct-hire foreign nationals who are now under Civil Service Retirement to contractor status could create morale problems and likely uproar.

The plan would give difficulty in implementing the intent of Section 401 (the Obey Amendment). Decreased workforce levels overseas will inhibit ability to either convert GS personnel and assign them overseas for experience, or will diminish overseas opportunities for FSR's initially hired for AID/W assignment.

I have tried above to articulate intuitions related to overseas experience (mine and others) that are called up when reading the plan. There are many more detailed elements of the Plan I could comment on, but there simply isn't time within your deadline for development of detailed comments.

In summary, I find it unconscionable that the basis for the Plan has no philosophical root in a process of development, but rather two aspects of U.S. internal parochial concern--we must cut down the number of USG employees working at it, but we want to spend more money on the program. As far as I am concerned, there could be no more disingenuous motives. The Plan may be imposed out of concern for the above, but it is my honest opinion that it doesn't fit the real world of what we must do if indeed we are interested in helping the poor of this world through the real process of development.


Gordon B. Ramsey
Director

Office of Personnel Management

cc: (Page 5)

MANAGER TO MANAGER

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cc: A/AID - Mr. Nooter Mr. Erlich
AA/AFR - Ms. Butcher Mr. Bennet
AA/NE - Mr. Wheeler
AA/LAC - Mr. Valdez
AA/ASIA - Mr. Sullivan
AA/DS - Mr. Levin
AA/SER - Mr. MacDonald
AA/PDC - Mr. Raulerson

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

GENERAL COUNSEL

August 2, 1979

MEMORANDUM

TO: AA/PPC, Mr. Alexander Shakow

FROM: GC, Markham Ball *MB*

SUBJECT: Draft Plan for More Aid with a Smaller Staff

The draft plan quite rightly stresses the importance of bringing A.I.D.'s country programs into focus, and of avoiding dissipation of our efforts in too many small projects. The paper anticipates and discusses many of the problems that must be considered and resolved before the plan is adopted. Let me suggest some additional issues:

1. There needs to be an analysis of the effect of a \$5 million life-of-project floor on the Agency's project mix. Will this floor greatly alter the kinds of projects the Agency does or the sectors it works in? If such a floor were applied to A.I.D.'s present portfolio, we would doubtless find ourselves much more heavily into infrastructure projects and less involved in technical assistance.
2. Rather than a rule requiring minimum life-of-project cost of \$5 million for every project managed by A.I.D. (and perhaps rather than a restriction to operations in limited numbers of sectors), it may be better to put a maximum on the number of projects that may be obligated in a given country in a year, leaving it to the mission director and bureau to allocate resources among projects and to continue a few smaller projects in the mix, if they choose to do so.
3. In the case of projects in areas of special Congressional interest -- such as women in development, energy, environment, and human rights -- it may be necessary to provide for the possibility of exceptions to the \$5 million minimum, as well as to seek out intermediaries for these projects as the paper suggests.
4. How will the proposed limitations on numbers of projects and project size relate, if at all, to the Housing Investment Guaranty program, the Reimbursable Development Program and Economic Support Fund programs?

5. Note that the proposal for full obligation of projects in the first year may cause problems with Congressional critics of an excessive pipeline. This criticism led to enactment of Section 611(a) of the FAA, which may be more difficult to satisfy if all projects are to be fully funded at the outset. Since "no year" appropriations are apparently a thing of the past, there is a greater risk that deobligations will cause funds to revert to the Treasury.
6. "Type IV programs," I gather, would use funding devices comparable to the old sector loans and grants. It would be useful for the paper to consider other devices for doing more with fewer people that were considered by the task force, but apparently rejected. These include projects that piggyback on MDB projects; projects (such as Bangladesh fertilizer) in which commodity imports are tied to economic structural change; and projects modeled on P.L. 480 Title III projects (although my suggestion of the Title III model may merely be another way of saying that we should rely on host government planning and implementation, and on host government rules and procedures rather than our own, when we can).
7. Suggestions to use more contractors will have to be evaluated in light of OMB guidance limiting the use of nonpersonal service contracts, A.I.D. regulations limiting the functions that may be performed under personal service contracts, and appropriation act limitations (past and anticipated) on expenditures for personal service contracts.
8. To reflect concern with getting the biggest bang with the taxpayer's buck, would it not be appropriate to propose to OMB that our overseas operating costs be limited on a dollar basis only, and without regard to the numbers of direct hires? This would permit increased hiring of relatively inexpensive local hires, and arguably, permit us to provide a constant level of staff support for A.I.D.'s overseas programs at a lower cost and with fewer MODE problems.

July 31, 1979

MEMORANDUM

TO: AA/PPC, Alexander Shakow
FROM: OPA, James McCulla *James McCulla*
SUBJECT: Comment on AID Funding-Expansion/Personnel-Reduction Plan

I have a comment - from the perspective of a 2-year agency veteran, with 15 hours of grad econ and one longish trip to the Third World (in this job) under his belt:

One thing that I have run into consistently in development theory courses is speculation about the role of the elusive "residual factor" in growth.

Here are a few statements to clarify what I'm talking about:

Gerald M. Meier, in Leading Issues in Economic Development: "Empirical studies of the sources of growth in output in a number of countries have demonstrated that much of the increase in aggregate production over a long period cannot be explained by an increase in only the standard physical inputs of the factors of production. A large part of the increase in total output remains to be attributed to some 'unexplained residual factor' in the economy's aggregate production.

Moses Abramovitz: The residual factor is "a measure of our ignorance."

Hla Myint, writing in Economica: "The problem of promoting rapid economic development in these countries may ultimately lie in the realm of social and economic dynamics of the sort we do not at present possess...."

Alfred Marshall examines technological and organization changes, and finally comes down with: "Man is subject to increasing returns."

All of which leads to a comment about the issues raised in Point 5, page 10, of the plan draft.

As previously noted, I haven't been around here very long. And my experience in the Third World is limited. But I did have an opportunity to spend more than two intense weeks examining AID projects in Java and Sumatra. And everywhere I went, Alex, both Americans and Indonesians put greatest stress on personal relationships when asked why a project was succeeding. /

I heard stories about the mission director, and the director of our largest project there, working very closely with heads of the national government's planning, public works, agricultural and what-have-you departments, to show them how they could cooperate with each other, how they could divide responsibilities, how they could take on new jobs and give up turf gracefully, how they could introduce new concepts into the budgeting process. and so on.

I saw a number of cases where, obviously, the American and his Indonesian counterpart worked together beautifully, jointly motivating the farmers, or giving courage to the settlers.

Well, you get the point.

I came away with a very strong feeling that the essence of "technology transfer" could be found in the advice of an experienced American to his inexperienced Indonesian associate: "Here is what we learned to do in a project like this on the Colorado River." And the essence of education may be in the question by the American project manager aimed at the local native supervisor: "Why haven't these canal banks been repaired? If they aren't, this thing will sit-up in a few weeks."

So although the money obviously is necessary, the critical part appeared to be the people-to-people relationship.

Hence my concern over the possibilities raised by Point 5, page 10, discussing the possible outcome of the reduction of AID people in the field.

UNITED STATES GOVERNMENT

Memorandum

TO : AA/PPC - Mr. Alexander Shakow

DATE: August 2, 1979

FROM : AA/NE - Joseph C. Wheeler *J. Wheeler*

SUBJECT: Herrick Paper on Expanding Program with Less Staff

While the ideas in the Herrick paper have a certain appeal, I don't really think they can lead to the kind of development programs we want to support or the personnel savings promised.

1. Greater Use of PVO's and Other Intermediaries

We have no problem with trying to use intermediaries more. We use them a lot now. But they have some serious weaknesses which are evident to us as they try to move from welfare to development projects. We give them what help we can, and we expect their capacity to grow as more difficult problems are tackled. We need to keep in mind that PVO's are not welcome in all countries and they have only limited ability to influence host country policy and program. AID staff in the field and Washington will continue to be required if PVO's are to try serious development issues. Two other points. Our program with PVO's would be wiped out if a \$5 million life-of-project limit were applied. We know of no countries in this Bureau prepared to receive the bulk of its assistance through PVO's.

2. Limiting Sectors of Involvement

Our areas of involvement reflect our own as well as Congressional perceptions of the development tasks we should pursue. We also think they reflect host country interest as well. We are giving up too much ability to deal with legitimate development objectives in limiting ourselves as proposed.

Furthermore if AID is unwilling to work in energy or education or health, we will soon find, in domestic agency legislation, authority for work overseas since each sector has its own Congressional support. We don't need to work in every sector in every country but we need to look at each situation to see what makes sense in the circumstance.



3. Limiting Project Size

We certainly need to be sensitive to the cost effectiveness of small projects, particularly in terms of manpower needed to design or manage these projects. But small pilot undertakings can be the building blocks of later province wide or nationwide efforts. In this manner an Egyptian family planning household distribution scheme moved from 1 village to 38 villages to the province and now prospectively to 4 provinces in a period of 6 years. We will lose something important if we insist on starting too large. I'm also afraid that arbitrary limits will only encourage the skillful packager in creating basket projects or sector projects which will bring new management and implementation problems.

4. Turning Functions over to Contractors

This Bureau believes in wholesaling, in maximum use of contractors for most design tasks, much evaluation, and all project implementation. We use the collaborative assistance method extensively in agriculture and education project development and implementation. Since we are already doing this, we see no potential for saving manpower in either the field or Washington. Ultimately AID direct hire staff is responsible for passing on the adequacy of the work of the contractor, on deciding that the proposal makes sense and is worth funding, and for monitoring implementation and deciding on future funding. We cannot do this job well long distance and without minimum essential staff.

5. Changing the Mix of Skills

Missions need technical people to perform effectively. There aren't any generalists, including Mission Directors, able to take on all subjects, without technical on the ground knowledge. We won't get to the policy issues unless we know what we are doing and have something sensible to say. (There is an issue in the Agency of whether we need to staff with technical generalists or specialists which needs to be aired and could affect staffing levels.)

6. Limiting Mission Size

We need to start with the development needs of countries not mission size. We tried to apply the four

model country typology to our DA and SA cases and find no fit. I am afraid what we are offered is less program with less people.

7. Other Issues

As I stated at our budget review, we need to be clear on what "redundant functions" it is proposed to forgo. I am certain that in this complex operation we can improve our procedures, but I suspect that when all the conflicting demands of prudent management, foreign policy and host country interests, legislative requirements, and Congressional interests are overlaid the opportunities for significant alteration of the system and manpower savings are quite limited. It is very risky to characterize these functions, concerns and requirements as redundant unless we can be specific about what functions we are talking about and are sure which ones can be modified to afford manpower saving.

We endorse life of project funding. We think there is better use of existing AID/W and field staff than managing annual funding increments. We do need to be sensitive to project size. We also need to develop concepts that are acceptable to all Bureaus on the range of technical skills the Agency should deploy to the field. My impression is there are significant variations among Bureaus and I believe there may be some personnel savings to be found in this area.

cc:
AAs
Acting A/AID:RHNooter
A/AID-Designate:DBennet
IDCA-TEhrlich

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MANAGER-TO-MANAGER

August 2, 1979

MEMORANDUM

TO: AA/PPC, Mr. Alexander Shakow
FROM: AA/ASIA, John H. Sullivan *JHS*
SUBJECT: Draft Plan for Expansion of the AID Program with Stable or Reduced Staff Ceiling

I welcome the opportunity to comment on the draft plan. It is a useful step in the ongoing process of keeping AID's operations as efficient and effective as possible, a process that must be part of our day-to-day management effort. It is particularly appropriate that we should question our "normal" ways of doing business now, as a new organization (IDCA) and new leadership (Ehrlich, Bennet) come into place.

The paper has sparked lively discussion and some controversy within the Bureau, which is entirely healthy. Out of our discussions has emerged a consensus that within the universe created by the paper it has many cogent things to say. We believe, however, that this universe is too narrow and ignores or understates some essential elements of the U.S. bilateral assistance effort.

Essential Elements

These elements include the following:

1. The basic purposes of the "New Directions" legislation--that AID aim its assistance at the rural poor in poor countries--will not change.
2. In order to command confidence and resources from the Congress, we must be able to demonstrate that we are reaching, as directly as possible, the intended beneficiaries.
3. In addition, we must--if we are to keep this confidence and claim to resources--convince the Congress and the U.S. taxpayers that we use our appropriations prudently and efficiently, minimizing waste and corruption.
4. Pipelines, while an unavoidable in a growing program, must be kept to a minimum: Undisbursed funds help no one, are eroded in impact by inflation, and weaken our arguments about needs for more money.

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5. Budgetary allocation decisions involve a number of actors--State, OMB, NSC, Treasury, USDA--some of whom are concerned with issues other than those of development.

Each of these elements have manpower implications which cannot be ignored as we would seem to be doing if we acted to apply across-the-board personnel reduction formulas or assigned countries to categories which then determined their personnel mode. Such behavior would run against what we know to be possible. Further, it would call into question our commitment to the provisions of the Foreign Assistance Act and the interpretation which consistently has been given it by the responsible Congressional committees. Note for example the following passage from the June 1979, House Appropriations Subcommittee report on the Foreign Assistance and Related Programs Appropriations Bill:

The Committee encourages AID to place more of its Washington-based personnel in the field. The Committee expects the personnel in the field to spend a good deal more of their time in the villages or in the countryside, implementing U.S. projects, identifying the needs of the poor, and maintaining proper liaison with villages and community leaders. Greater emphasis must be placed on personal contact in order to keep in touch with development needs and to detect potential problems at an early stage. The personal give and take between AID personnel and aid recipients would seem to be an invaluable tool for program management.

Asia Bureau Experience

At the recent ABS review the Asia Bureau was cited for being innovative in its approach to managing operations abroad. The specific programs were:

- * The South Pacific program which works entirely through 1) PVO's, 2) the Peace Corps and 3) regional organizations--with a staff of two professionals.
- * The India program in which a large portfolio is managed by a staff of 11, which is expected to grow very slowly, to a maximum of 20, regardless of program growth.
- * The Burma program which has two professionals in-country and for which little or no staff growth presently is projected.

We are pleased to be recognized, but most point out that none of these arrangements resulted from the application of some external personnel cut, but because they made good management sense in their specific situations. They would make sense even if personnel numbers were no constraint at all.

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In a similar vein, the Bureau has acted to increase the effectiveness of its management by such devices as 1) emphasizing larger projects, 2) encouraging missions to amalgamate activities (PVO co-financing for example), 3) clustering project activities in a country in a few sites, 4) using Peace Corps, 5) full funding of projects and 6) sector concentration. In taking these steps we have, of course, been aware of the need for being personnel spare--primarily because of our interest in reducing the ratio of operating costs to program amounts to the lowest possible number. The process, however, must be ongoing and we always are open to ideas of how to do business more efficiently, while maintaining our effectiveness.

The Herrick Plan, on the other hand, seems mechanistic in its application. For example, it suggests that the Philippines could be a Category IV country by 1985 with a program run by 8 - 15 people. While we believe that the Philippines mission has been somewhat overstaffed and are taking steps to reduce both Americans and local nationals, such a drastic reduction would put our program there in an untenable position because:

The Philippines, as a human rights problem country, must have sufficient Americans there to determine that our aid is going as directly as possible to the intended beneficiaries--the rural poor.

Past evidence of corruption dictates the presence of sufficient Americans to assure that funds are being used in the ways intended.

Because most Philippine institutions are weak below the ministerial level, sufficient Americans must be available to assure that our projects/programs are carried forward expeditiously.

The important point here is that our South Pacific, India and Philippine programs are staffed differently in response to quite different country situations. The amount of annual funding is not the key factor, but rather, our knowledge of what it takes to get the job done in light of country-specific project negotiation and implementation requirements. This flexibility must be retained if the Agency is to be able to handle increased funding levels in accordance with the five elements I mentioned above.

Problems of the Herrick Plan

The Herrick Plan concerns us also in terms of certain evident misconceptions and erroneous assumptions regarding how we do business in the field. Following is a number of key points where all parties should reach agreement before we proceed to institute major modifications in how we work:

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- Is A.I.D. in fact employing highly specialized personnel in narrow technical roles overseas as the Herrick paper implies, or, as is the case at least in the Asia Bureau, are the technicians overseas being employed exclusively in project manager roles with broad responsibility for project negotiation and implementation?

- Are there not limits on what we can expect PVO's to accomplish in light of their non-governmental status and limited capacity to implement other than relatively small, concentrated programs?

- Can monitoring requirements in terms of ensuring proper and prompt utilization of funds be lowered without running serious risks of adverse audit findings?

- Can contractors undertake current monitoring and implementation responsibilities especially in terms of handling the frequent requests for deviations from policy and plans which are inevitable during the course of project implementation?

- Are there not valid programmatic reasons for some projects under \$5.0 million, especially for grants in support of loan funded projects and for strengthening host governments planning and management capacities?

Is it realistic to expect that host governments can undertake responsibility for procurement and contracting in light of experience to date?

- Will it be possible to introduce exclusive use of sector lending in enough client countries to significantly expand obligation of funds given present knowledge of their development policies, commitment to BHN objectives, and institutional capacities?

Answers to these as well as other concerns about the proposed plan should be addressed before the Agency so modifies its field missions that they cease to be effective developmental entities. They now provide the Agency with a unique comparative advantage over other donor agencies, especially those agencies attempting to adopt BHN objectives.

Recommendations and Conclusion

With the above said, we would like to propose a number of recommendations for increasing the Agency's capacity to administer an expanded budget with fewer people:

- concentrate on strengthening field missions by filling existing vacancies especially those requiring technical competence. This will require reductions in central and regional bureau technical staffs as

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well as an effective recruitment program for mid-level technical personnel. We are not proposing large missions. We believe that most Asia Bureau country programs, even with enhanced funding, could be administered with a D.H. staff of 25, especially if authority for employment of individuals under PSC's could be given without the limitations currently imposed by Congress.

- conduct a rigorous analysis of central bureau staff to determine which functions could be eliminated or reduced in scope, recognizing that trade-offs are necessary given the assumptions on future ceiling levels.

- review mission foreign national direct hire personnel staffing to identify opportunities for transferring non-professional (e.g. drivers, janitors, messengers) to PSC or contract status thereby saving direct hire ceilings.

- encourage sector lending under those exceptional circumstances where host governments have made policy and budgetary commitments sufficient to give us reasonable expectations that BHN objectives will be met. Sector lending should be only one of several approaches available to a mission - not an exclusive one.

- authorize approval of projects with extended implementation periods to permit larger obligations and broader impact.

In conclusion, we wish to reiterate our deep interest in increasing the operational efficiency of the Agency and the Asia Bureau. While the Herrick Plan has clear infirmities, it allows the issues to be more sharply drawn. We look forward to a continued dialogue on those issues in the days to come.

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Alex Shakow, AA/PPC

DATE: AUG 1 1979

FROM : W. Haven North, Acting AA/AFR *W. North*

SUBJECT: A Draft Plan for the Expansion of the AID Program with Stable or Reduced Staff Ceilings: A Critique and Alternatives

I. Summary:

The draft plan should not be adopted at this time as an Agency policy paper. It contains a number of interesting and innovative ideas. However, we believe that in embracing some aspects, particularly the categorization of countries, we risk taking steps backward. Serious development momentum in the poorest countries could be undermined by excessive emphasis on the use of intermediaries and unnecessary sector concentration. Its valuable components notwithstanding, the draft starts from a surprisingly candid assumption; i.e. that the main constraint to doing more is ourselves. That the absorptive capacity problem may not be as predominant in developing countries as it is in our own procedures.

It has always been the assumption of this Agency that the developing country was the center of the development process. Accordingly, changes in the way we do business should begin from the country perspective of effectiveness and improved development impact rather than a goal of simply doubling budget levels with an arbitrary staff level.

In Africa, more than any other Bureau, we have attempted and made progress with many of the ideas presented in the Herrick paper. For instance,

- we already have significant use of PVOs and intermediaries. For years the bureau has advocated the selective utilization of intermediaries and has even created them. i.e., The African American Purchasing Center.
- we have large programs with very small staffs where the development situation warranted. i.e., Zambia, Botswana.



- we have had small programs with no direct hire staff. i.e., Malawi, Mozambique.
- we have initiated a frank and constructive dialogue with Missions to plan, on a country specific basis, to address the same issues.

The mechanisms suggested are not new and virtually all combinations have been attempted in Africa. We feel we know what works relative to Africa's problems, and what does not work. Many of the directions suggested in the draft have been our mandate for several years. We can and will continue to move in these directions with all realistic speed. This can be accomplished, and preferably so, without the excessively mechanical categorization of countries. It will be impossible to do more with less without clear assurances on planning directions. This is difficult, we know. However, with assurances of larger budget availability Missions could and would move to design, with governments and other donors, the larger projects and programs. We have all been conditioned to think small over the years and to approach problems on a piecemeal basis because of consistently limited budget availability in the past.

One important point must be emphasized. AID has been singularly the most successful agent in influencing African thinking on development problems and solutions. AID is more sustained, comprehensive and reliable. Whether justified or not, we are frequently viewed as the innovators, as the catalyst to bring various parties together to address a problem. There is a consciousness to basic human needs not coming from other donors. This development dialogue with African countries is in many respects our only substantive dialogue. We would lose this in all Category I and Category IV countries. What we lose is not worth the savings that we might achieve by deemphasizing "small" countries or in reducing staff to move to Category IV type countries.

Rather, by fine tuning and carefully considered and crafted adjustments in the way we do business we can achieve the objectives. Some of the changes, such as life of project funding, could result in radical improvements.

With that background we would like to suggest that there are a mix of program, procedural and administrative reforms which could perhaps more effectively accomplish the assigned task with a more positive contribution to development effectiveness.

The issues being posed and the policy decisions which follow are so important that further investigation of alternatives and mixes of reforms is essential. We also propose that a small inter-agency group including selected Mission Directors be named to continue an examination of possible program/staff modifications. The issues under consideration are too important to rush to policy judgements too quickly.

Our specific critique of the draft paper is contained in Attachment A so that we can spend more time outlining some alternative ideas and approaches. However, first we should look at some of the underlying assumptions.

II. Erroneous Assumptions

There are several assumptions behind the draft paper which should be questioned:

- A. Small country programs as categorized by current year figures will and should remain small. This assumption unfairly selects a number of the poorest countries for restricted or token levels of assistance. In many instances "smallness" is only a function of newness or of limited budget availability in recent years. If any categorization of countries is made it should be on the equitable basis of the IPA exercise and relative need. In this regard the currently "small" programs in Togo, Benin, Sierra Leone, Mozambique and Guinea have IPAs of \$20, \$25, \$22, \$66, and \$38 million respectively.
- B. Doubling the program by 1983 with existing staff cannot be accomplished without significant changes.

In most of the developing world inflation is now at record levels. Rates of 20% to 30% are not unusual in Africa. Therefore the amount of money being contemplated is not significantly larger, in real terms, than we are currently managing. If modest suggestions for larger project units and life of project funding were actuated a doubling of the program is theoretically possible with fewer units of management. If development effectiveness is our goal then a different and country specific construct of programmatic changes is more in order. Some specific ideas are outlined in Section III.

- C. PVOs and other intermediaries can systematically contribute to meaningful development.

PVOs and many other intermediaries tend to treat the symptoms of underdevelopment rather than structural

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causes. However necessary this work it contributes little if anything to the institution building, program replicability and policy changes that are essential to the development process. The net result of "assigning" the "small" country programs to PVOs would be a limited impact on the poor. In many countries wholesale movement to intermediaries would be politically unacceptable.

D. We can move away from projects as the primary vehicle for transfer of economic assistance.

While the movement from smaller project entities is good in theory, it is difficult in practice. Most LDCs particularly the poorest, must rely on projects for technical assistance, rural development etc. Program grants or lending become appropriate only at a certain level of economic sophistication. In the least developed countries it is doubtful that basic human needs activities could be undertaken except through "projects."

III. Alternatives:

The following is a random selection of program, procedural and administrative reforms which offer, in aggregate or selective mix, the possibility of more effective development impact, and a doubling of resource transfers with little or no increases in staff. They are random suggestions, in need of further analysis, and are not presented in any hierarchy of import or priority.

1. Program and Project Management Reform Alternatives

A. Life of Project Funding

- This has been widely discussed. Our assessment is that substantial staff savings could be realized. Missions could give increased attention to project work plans, evaluation and implementation. For Africa the Congressional Presentation could be reduced from 403 project sheets to 60 or 70. Congressional Committees would be able to "digest" AIDs reduced CP and focus their attention to more in depth review of projects. This would require a significant one year increase in new obligational authority to eliminate the mortgage factor for on going projects.

B. Increased use of Co-Financing with Other Donors. Use of Other Donors, and International Organizations as Executive Agents

We have not thoroughly investigated the range of

possibilities for cofinancing with other donors and the utilization of other donors as executing agents. We have had some outstanding success with projects such as the onchocerciasis program. This is different from reliance on PVOs and intermediaries. For instance, in southern Africa a number of opportunities for co-financing have been informally discussed with the EEC, U.K., Dutch, Germans, IFAD and FAO. In the case of EEC and FAO they are willing to act as executing agents. Co-financing projects can be designed in a manner that the day to day management does not fall predominately on AID without relinquishing monitoring responsibility. This would allow for more country specific program tailoring with reduced direct hire work force. There are difficult problems and changes in policy regulations that may be necessary (i.e. bill requirements, auditing procedures, etc.) However, the potential for staff savings without reduced development effectiveness is such that we should make a concerted effort through Congress and GC to give much more substance to our often stated objectives of multi-donor collaboration.

C. Host Country Project Management

There is a certain lingering arrogance, partly fact, partly myth, that developing countries cannot "manage" projects. Has AID not assumed excessive management responsibility in many instances? The policy decisions so crucial to project success are so often outside our management control. We should make a more concerted effort to fund the management of projects within the activity to reduce the substantial DH involvement in implementation. This would also place the project under the fullest possible country control. The World Bank approach may be a useful model. There are obvious risks involved in stressing country management. Is our record of project success so great that we cannot afford to take these risks? It could be argued that "on the job training" for host country and/or OPEX type project managers should be a key component in any human resource development strategy as well as in our project implementation techniques.

D. Larger Project and Program Units

The argument for larger project units is a compelling one. Again the guiding principle should be development effectiveness. We are the first to agree that too often specific country problems have been approached in a piecemeal fragmented way. The movement to larger management units is integrally related to opportunities for multi-donor programs. Again this must be country

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specific. There are good reasons for small projects for important technical assistance activities, and, most important, to provide for innovative initiatives.

E. AID and Peace Corps

The new Peace Corps Director has stated his intention to work more closely with AID and to seek a greater development impact for Peace Corps within their mandate to further basic human needs. There is considerable potential for doing more together, particularly since it is the wish of Peace Corps to secure AID financing for projects they identify and design, and to maintain autonomy in implementation.

F. Sector Concentration vs. Broadening of Sectors

One suggestion is that we could do more with less by concentrating on one or two sectors. Perhaps the opposite is true. In most African countries this would reduce our impact on Basic Human Needs. All Missions would select Agriculture with a second choice probably health. Projects in energy, education, re-forestation, fisheries, appropriate technology would be eliminated. Africa is critically short of infrastructure. Success in agriculture, or any other productive sector will be largely dependent on the efficiency of transport. Infrastructure and basic human needs are not mutually exclusive. Selective infrastructure and transport financing offers creative and unappreciated opportunity for development impact, reinforcing country capacity to provide for basic human needs, and increasing resource flows with fewer AID direct-hire.

Sector selection from a policy standpoint should be broadened or not be too categorized. Rather, as a function of the CDSS, and accepted country specific or region specific strategy we should try to focus on a selected set of functional development problems. The resolution of which will require actions which cut across sectors.

2. Procedural Changes

A. Delegations of Authority

The recent delegations of authority to the field have not yet had time to impact on workload. There should be reduced Washington review, and hopefully,

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moderated institutional second guessing. Further delegations should be considered, possibly for larger projects. Excessive reviews are still the most ravenous consumers of staff time.

B. Budget Process

Budget responsibility, procedure and the Congressional process is the most consistent and troublesome Washington workload. At present there appears to be little relationship between the final appropriation of funds and the extraordinary number of person months and years that go into ABS preparation, Bureau and Agency budget review and re-reviews, Congressional Presentations, and testimony. The Congress and OMB in an efficiency measure, should be asked to seriously review modifications in budget procedure to reduce staff time. Life of Project Funding would be an important first step.

3. Administrative and Management Changes

The areas for potential savings (staff and financial) in this category are too long to enumerate. It is important to note that AID is probably unlike any other bilateral development agency in the world, in its ratio of administrative and staff personnel to line personnel. A serious review of the essential need for large supporting staff offices must be made.

Three examples of possible administrative changes that should be considered are:

A. Simplify the Administrative Support for Contract Personnel

There are too many AID administrative staff in the field because of contract support demands. For instance, in many countries it would be cost effective to eliminate shipment of household effects, and automobiles and provide cash allowances.

B. Increased Flexibility on Personnel Service Contracts

Too often direct hire positions are requested for overseas tasks that could be more effectively performed by ex-Peace Corps volunteers, or other American resident in-country, and at less cost. Flexible mechanisms for local short-term or part-time contracting should be identified and encouraged as part of current policy in field delegations of authority.

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C. Elimination of Travel Vouchering

Most other donor development agencies, and certain international organizations have eliminated travel vouchering and auditing since it is not cost effective. AID seems to be heading in the opposite direction. New voucher forms are occupying much more professional and secretarial time. The Agency should consider adopting the OECD system where travelers are given a fixed cash per diem by country which includes adequate provision for taxi fares. Based on confirmation of actual travel this is the only one time payment. There is no auditing, no traveler reclaim and a substantial reduction in unnecessary paper.

Attachment

Attachment

Elaboration of Comments on the Draft Plan

Aside from comments already made, we believe it would be helpful to comment further on many key points that are explicit or implicit in the draft plan, the implications for Africa, and areas ripe for reconsideration.

1. Country Categorization - We have major reservations about introducing a categorical and potentially arbitrary approach to classifying countries into four types. The process of doing so will divert attention from what we are trying to accomplish developmentally. It carries with it certain undesirable connotations in our relations with the countries and creates another artificial program exercise which will require elaborate justifications by the Missions and Bureaus and to Congress. We believe that objectives of modifying program/staff ratios can be covered by the CDSS/ IPA process which provides the opportunity to relate program strategy, operating style and staffing in a coherent and systematic methodology. Further categorization will create rigidities and distortions which will not be helpful in addressing the development problems of each country. The assumption on Type I countries is a major concern to the Africa Bureau. Our experience has demonstrated that PVO activity alone is no substitute for bilateral projects. Small projects in small countries is not tokenism and thus unsubstantive as this topic implies. We believe we can have a very significant impact on selected problems in such countries with limited focused bilateral projects, e.g. in Cape Verde and in Seychelles on food production; we already have had significant impact in Guinea Bissau in rice production. We agree that these programs can be managed with minimal staffing.

The assumption in Type IV countries that 8-15 people can handle \$20+ million in A.I.D. assistance within the current BHN/New Directions framework is hard to accept. The "draft plan" only hints at how this is to be achieved. The presumption is that A.I.D. activity would be limited to CIP type sector program assistance with little or no T.A., but this is not spelled out. As it is at the heart of the "draft plan" and its aim to reduce staff, the implementation factor needs to be described fully and evaluated in terms of impact on BHN's, Congressional interests, etc.

2. Sector Limitations - We are unclear as to how limitation to one, two or three sectors can be prescribed by country program size outside of the CDSS process. Given the Congressional interests and developing country problems, are we saying we will concentrate on agriculture or agriculture and health in a country but not be concerned with population or education? What happens to our special interest areas in energy, environment, Women in Development, etc., which are important but generate projects outside mainline sectors? Or are we subsuming these interests within the mainline sectors? Sector concentration judgments are built into the CDSS process without preconceived categorization.

3. Personnel Reductions and Mix Changes - We do not agree that the Africa program should be faced with a cut back in personnel. We have operated under severe personnel constraints and are only just beginning to get staffed up to the basic staff required to manage an expanded program. We recognize there may have to be some adjustments downward in some of the older Missions, but the majority of posts are at minimal levels well within the "draft plan" assumptions. We must be able to plan on some increase in field staffing just to establish a sound operating base. With some modification in operating methods, we can increase the program substantially with only a modest increase in DH staff, if any.

We are similarly concerned about the proposed shift to generalists and social scientists and the reduction in technical staffs. We are still seriously short of technical staff. Also we have very few who are solely technical as most technical staff serve in program management roles. The few we have are in the REDSOs and serve region wide - a better arrangement than bringing them back to AID/W. Developing countries tend to have generalists and to be extremely short of technical personnel. Any decision on this must be country specific.

4. Project Size - The "draft plan" is unclear on what is meant by "moving away from the project oriented mode." We see the attraction and merit in the proposed shift away from "small" projects under \$5.0 million. However, there is a danger in abandoning the smaller projects; they often are the key to innovative programs where larger undertakings would be too risky. A.I.D. should not lose its significant role in development innovation - it is a pioneer among development finance organizations. A general rule of thumb suggests that the larger the projects the more conventional and more focused on resource

transfer they become. They are possibly more effective on policy change but weak on innovation. We agree that we should have a higher percentage of our program in over \$5 million projects, the trend in AFR programs is in that direction. We are reducing our units of management, 80 projects will be phased out in FY 1979. However, we are concerned that we have not cut ourselves off arbitrarily from the values of smaller projects. For small projects under \$1.0 million we have found that there are various consolidating arrangements that have proved effective and economical in staff work. Our regional program for example, averages \$30-35 million in such consolidated program mechanisms which have been valued for their stimulus to innovation. There is also a need in Africa for an arrangement to handle the mini-projects - \$100,000 or less; this is the intent of the "African Development Fund" idea. There is considerable enthusiasm for this mini-project fund in Congress and in Africa.

5. PVOs and Intermediaries - The "draft plan" urges increased use of PVO's and intermediaries. We agree and probably employ this mechanism more than any other Regional Bureau. PVO/Intermediaries are important in the development process such as in grass roots activities and in non-governmental LDC program initiatives. They are not the best mechanism for major bilateral development programs concerned with national development systems or large institutional development.

They have, we have learned from experience, real limitations in management capacity and their ability to take on broader activity than their basic interest. We have found that they are not readily accepted by LDC governments as substitutes for bilateral assistance.

6. Budget Process - At no point in the "draft plan" does it refer to the budget process which is a major consumer of staff time. Curiously the section on AID/W does not refer to the budget responsibility and Congressional process. If we are seeking to save staff time, then this is an area we should look at. One major point noted in our covering paper is the value of LOP funding for all projects. This would almost eliminate the ABS; the annual preparation and review of on-going project budgets and their allotment/obligation burdens. Rather than dealing with 300-400 projects each year, we could reduce our workload to 60-70 new projects with more time for implementation and evaluation.
7. Project Accountability - The "draft plan" appears to assume away the workload on accountability arising from audits, GAO reviews and Congressional requirements as largely self-imposed. How we are to change this condition is not discussed but, again, it is vital to staff reduction aims.

MEMORANDUM

AUG 3 1979

TO : AA/PPC, Mr. Alexander Shakow

FROM : AA/IAC, Abelardo L. Valdez

SUBJECT: Draft Plan for Expansion of the AID Program with Stable
or Reduced Staff Ceiling

From the period in early June, when the need for this plan was first identified, I welcomed the opportunity to review our Agency operations, identify our strengths and weaknesses and begin to make the adjustments which may be necessary to meet the challenges of the next decade. I instructed my representatives to the PPC led task force which was established to work on the plan to play a full role to insure that our plan for the future took full advantage of our experience and realistically addressed the task of expanding our development assistance program with the same or reduced numbers of people.

A part of our participation in the task force involved the preparation of a variety of working papers on various issues which are central to any program expansion plan. I have attached these draft working materials to illustrate the range of issues which our plan must address. I have also attached a summary paper with a few practical observations on our current operations which highlight areas for further study in developing the plan.

I have attached these working papers because I am convinced that the current draft plan is inadequate in most respects for making a convincing case to ourselves, let alone OMB and the Legislative Branch, that we can expand the AID program size and reduce staff. We will need these materials and many others for the reconsideration of this Plan which will be necessary.

Our specific problems with the draft plan are summarized below:

- Basically, our problems with the plan derive from the fact that it is Washington-oriented and Washington-originated. It takes no account of the unique countries in which we work and where the problems are.
- The concept of "efficiency" used throughout the Herrick paper is amount of personnel time per aid dollar expended. There is no attempt to relate this to any sort of program goal or achievement. You can't measure efficiency that way.
- Our impact on policy (which the plan posits as critical, and we agree) is not necessarily related to project size. It may be, in such programs as integrated rural development programs where policy

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changes are built in. However, some of our most effective projects, in terms of bringing about policy changes, have been relatively inexpensive (\$100-\$500,000) studies which gave the countries involved a much better fix on what the problems really were in a particular area or sector and thus led these governments to see for themselves what policy changes were necessary.

- The notion of the four "types" of countries seems to be an attempt to force reality into some Washington-conceived system of pigeon-holes, rather than asking ourselves how we can more efficiently and effectively organize ourselves to deal with their problems. It's working the problem from the wrong end.
- The country "types" are delimited by the sorts of programs we would carry out in each type. But countries, and promising development opportunities, do not sort themselves out that way. Why, for example, set arbitrary limits, before the fact, on the number of sectors in which AID can work? If anything, we should be encouraging, not discouraging, multi-sectoral work. (E.g., an integrated rural development project incorporating not only Ag. inputs but also health and education would be expected to have a much greater impact on the lives of the target group than would single-sector treatment only.) Furthermore, multi-sectoral projects tend to present opportunities and to show up trade-offs not otherwise present or at least not otherwise as obvious. An example of this kind of opportunity would be home gardens with new types of crops introduced as a result of grade-school health/nutrition course.
- Along the same line, sector programs are just one way of operating, not always the most effective way for the circumstances involved or the opportunities presented. Furthermore, this will change in any given country from time to time -- and not, as the plan suggests -- always in the direction of sector programming. In any country at any time, your best operation might be a sector program, or it might be a major sector program and several narrower projects or it might be all projects or any other combination. So again, the notion of attempting to move countries from Type II to Type IV -- because it's better for us -- moves us further away from the development reality of the countries we're working in, rather than getting us closer to it or even allowing us to stay where we are.
- Our money and manpower constraints certainly are factors in deciding program mix but so also -- importantly -- are in-country circumstances. Determining which "type" a given country fits into before-the-fact (which is what the plan implies) effectively cuts off consideration of in-country circumstances.

- To the extent the plan suggests shifting from direct hires to contractors and PVOs, you are at best playing a numbers game. The paper suggests that the "common wisdom" concerning the higher cost of contract personnel as opposed to DHs is controversial. We'd be surprised if that were so, but even assuming the costs are equal, what, then, do you gain by switching to contractors? How does any such "gain" compare to what you lose in selectivity and continuity and, in some cases, control?
- With respect to PVOs, in general they represent a much less focussed approach to development problems than is possible through an AID-Host Government designed project. In general, they want to "do their own thing" which is part of their real value. They are complementary and supplementary to more focussed aid efforts, but not substitutable. (Pathfinder might be an exception, there might be some others.)
- The notion of concentrating technical personnel in Washington seems to us to overlook several important points:
 - The on-going, daily technician-technical generalist contact in the field, on the job, may well be the strongest single point of the present AID system and our greatest comparative advantage vis-a-vis other donor agencies.
 - Can we really program technicians travel so that we can be sure they will be where they are needed, when they are needed, for as long as they are needed? How much of their time would we expect these people to spend travelling per year? What would they do the rest of the time?
- Finally, the relative importance of the country to overall U.S. interests must be a factor, in our opinion, in program size and perhaps even type in all cases, not just in Type I or Type II countries as implied.
- We certainly think there are ways of handling larger amounts of money with the same or fewer personnel. Many of them are noted in the attached material.

I recommend that our future deliberations on this subject take full advantage of AID's development experience and use the bureaucracy to do one of the things it is best suited for - develop a carefully staffed and coordinated plan. As an institution, we need to define our product and assess our ability to produce it. We also need to look at our relative position among other development practitioners. We know how we differ, in exclusivity of policy focus, in style of operation, in speed of response and perhaps less uniquely in our ability to blend capital and technical assistance.

The consistency of our focus on basic human needs is unique among assistance donors. Our implementation of this policy has taken us far beyond narrow reflections of the U.S. society and its theoretical comparative advantages to focus on identification of problems of poor people in LDCs, an identification of the economic and societal constraints to resolving those problems and the design of plans, programs, projects and activities to alleviate those problems. AID has acquired a tremendous range of experience in the process. We operate in capitalist and socialist economies, liberal and repressive political contexts, traditional and modern societies, in cultures and languages that are resistant to change and others that welcome it. We have learned hard lessons that made in the U.S. solutions don't always work and have adapted our programs considerably to work among this variety of clients. The ability to adapt is an important asset.

Our decentralized style of operation is unique among donors and was unique even before the latest round of AID delegations. Our style permits a wide range of contacts on development matters from major policy changes to the small implementation adjustment that may mean the difference between a successful or unsuccessful project. The authority to recommend policy changes, propose projects for AID financing and make implementation adjustments lies very largely in the field. Most of our Missions have direct access to ministries and government organizations at all levels. Most other donors communicate to host governments through the Foreign Ministry at least initially. This range of contacts is an asset.

Despite our Congressional and budget leadtimes, AID can respond rapidly to finance important development initiatives. Recently in LAC, our Caribbean Regional program and population programs in El Salvador and Mexico have grown very quickly to meet development initiatives in the countries. This can be an asset.

Our blend of assistance, which places us between the T.A. only organizations of the U.N. or OAS and the larger capital sources of the IBRD or IDB is rare. We have management control which allows us both to begin to assist a government with technical assistance to develop a new idea or institution and the ability to finance at least some initial capital requirements to fully prove out a pilot effort. This is an asset.

Our task is to review our current operations and recommend changes which will take advantage of our assets more efficiently. I look forward to pursuing this objective. Because input from our experienced mission directors is very important to this process, I also plan to solicit their ideas at our upcoming mission directors meeting in October.

Attachments:

A. Task Force Documents

1. Financing of Intermediaries
2. Limitation on Sectors
3. Emphasis on Special Concerns
4. Elimination of sectors or sub-sectors
5. Coordination with other donors
6. Reduce Centrally Funded Programs
7. World Bank Model

B. Program Modifications

C. Summary Comments

Program Expansion and Workforce Savings

TASK FORCE

I. Financing of Intermediaries without A.I.D. personnel in country

LAC has considerable experience in using intermediaries both in specific functional areas and on a regional or sub-regional basis. However, although the use of such institutions has reduced the number of A.I.D. personnel required, it has rarely allowed successful development efforts to be mounted without any A.I.D. people. In both Brazil and Mexico, substantial population programs are being financed by A.I.D. through intermediaries. In each case, coordination of intermediary efforts and minimal monitoring of their performance requires the assignment of a full-time AID DH employee and 1 or 2 FNDH. Similarly in the Caribbean, a regional mission operating through the Caribbean Development Bank, and other regional institutions is providing assistance to 9+ small island nations. Although the use of intermediary institutions is considerably more efficient than bilateral missions in each island, the small regional presence is essential to manage the intermediaries efforts.

II. Criteria for change

- A. Quality and experience of intermediaries
- B. Ability of host country institutions to coordinate intermediary efforts with their own, other donors, etc.

III. Degree of change, and timing

Limited additional use can be made when criteria are met in particular functional fields or geographic areas.

IV. Benefits of the change

- A. Program expansion - Program costs would be increased because of necessity for intermediaries to provide for AID DH functions and overhead costs.
- B. Program effectiveness - little or no change - possible improvements in technical advice offered.
- C. Workforce Savings - marginal DH workforce savings by substituting intermediary personnel for AID field staff which would be reduced by increased AID project management efforts for intermediaries.

V. Costs of the change

- A. Program Reduction - If criteria couldn't be met.
- B. Program Effectiveness - Probable loss of coordinated pursuit of development policy objectives.
- C. Added Workforce - Requires additional study of individual cases to assess reductions vs. increases in project management/contracting areas.

VI. Issues to be considered

- A. Loss of connection to foreign policy objectives. Intermediaries can be turned on and off - even their styles can be controlled but its a more cumbersome mechanism for an Ambassador to manipulate.
- B. Sophisticated accounting controls needed for attribution of intermediary efforts on country basis (overhead, etc.)

I. Limitation on the number of sectors in a country.

The LAC Bureau attempted to use the initial exercise of DAP preparation in 1973 to characterize its assistance program in each country as a one/two/ or three sector program. The effort was discontinued for a number of reasons. Better analysis of target groups has indicated that solutions to their problems rarely depend on interventions in a single sector. Host government plans and priorities change regularly. Most sectors which are important to development are interdependent in important areas. LAC finds that sector assessment process frequently points out interlocking areas.

II. Criteria for the change

- A. Analysis adequate to determine that sustained efforts in chosen sectors would not be stymied by unattended constraints in other sectors.
- B. Long term host country priority and commitment
- C. Willingness on AID's part to make and adhere to somewhat arbitrary decisions rather than respond to host government requests.
- D. Establishment of selection parameters, e.g. How many 1/2/3 sector countries AID will support.

III. Degree of change and timing

There is a wide spectrum for this type of change from merely making current programs more explicit to adding sectors in all countries which receive U.S. assistance or eliminating all but one sector in each country.

IV. Benefits of the change

- A. Program expansion - negative in short-term

B. Program effectiveness - neutral at best, negative where a program in one sector could have benefitted from input from a forgone sector.

C. Workforce savings - elimination of lowest priority (and most sparsely staffed) sector in 15-20 countries might save an average of 3 positions per mission = 60 positions.

V. Costs of change

A. Program reduction - programs in sectors eliminated will be reduced in shortterm - perhaps 5% of total if 20 missions eliminated lowest priority sector.

B. Program effectiveness - neutral, with some sacrifice in terms of missed opportunities and reduced scope for overall development dialogue, coordination with and influence over other donor programs. Increased marginalization of AID efforts.

VI. Issues

A. How to explain to host countries

B. Need for increased Agency agility to change staff to support new sectors as decisions are made to change them within arbitrary total, e.g. substitute health for education in a two sector country w/Ag. continuing.

I. De-emphasis of Selected Special Concerns

This might better be called putting special concerns in perspective.

The Agency has been awash in special efforts from Title IX to WID to Human Rights. In every case initially important policy considerations effecting our programs have led to efforts to initiate "Title IX" projects on WID projects and have given rise to special "staff level" attention in central AID offices and regional bureaus. Rarely has any of that staff been assigned to the field to carry out activities. A real question has to be asked about whether these special staffs have added something to our programming processes that could not have been added without them, perhaps by crisp policy directives. Potential workforce savings in these areas might be important in the aggregate.

Special concerns such as energy, environment and science and technology may well be growth centers for our business. However, it is not clear that our staffing and central planning is paying sufficient attention to marketing especially the customers interests. Requirements in these new areas seem to be developed by the production staff and perhaps respond more to the U.S. perceptions of the problems than to our clients.

II. Criteria for change

A. Definitions of which special interests are important to AID as a bilateral development agency and why.

III. Degree of change and timing

Once identification of special concerns that are to be de-emphasized is made, change could be rapid. Few pipeline projects could be managed with remaining staff.

IV. Benefits of change

- A. Program expansion - reduce number of small management units (project) designed for special concerns reasons.
- B. Program effectiveness - if only those programs where a particular special concern is relevant in host country environment are designed to have an impact on the concern, program effectiveness could be enhanced.
- C. Workforce savings - AID/W staff devoted to selected special concerns could be eliminated, e.g., PDC/OLAB 6 USDH + 1 LAC, 1 AFR, 1 ASIA. = 9 total. PPC/WID _____ USDH, etc.

V. Costs of the change

- A. Program expansion - minimal
- B. Program effectiveness - A few opportunities for achieving impact in special concerns areas may be missed.
- C. Added Workforce - none

VI. Issues

- A. Special concerns frequently respond to U.S. domestic constituencies. Agency may be seen as "insensitive."

I. Elimination of specified sectors or sub-sectors considering AID effectiveness and purposes in relation to other instruments and donors.

This could be seen as a continuation of current agency trend which has resulted in elimination of infrastructure financing (power, water, etc.). The most radical approach to this change would be the total elimination of one sector - for LAC the Health and Education sectors are about 15% of the FY 1979 program. Total elimination of either would allow a reduction of approximately 5% of current workforce who are directly related to one of these sectors. Additional savings in management and administrative personnel might be possible, but the total would probably not approach 15% of total workforce.

II. Criteria for change.

- A. Effectiveness of U.S. assistance vs. other donor capabilities vs. host country needs.
- B. An appropriate sector or sub-sector can be identified where the assessment of costs and benefits applies worldwide.

III. Degree of change and timing.

Anything less than elimination of a recognized sector, e.g., education or health, will not allow clear attribution of workforce savings to the change. Most sub-sectors are clearly related to other program/sector activities and remaining activities and backstopping requirements for

non-eliminated positions of a sector will have to be continued, e.g., a change confining health activities to disease control does not necessarily save workforce in Regions or DSB, central backstopping merely concentrates on additional aspects of disease control.

IV. Benefits of the change.

- A. Program expansion - Program would contract by X% in short term concentration of resources in fewer remaining sectors might enable program to expand in longer term, depending on limits of absorption.
- B. Program effectiveness - Prejudged by nature of decision.
- C. Workforce savings - Some workforce savings would be realized; however, even in the most clear case of elimination of a sector they would not be commensurate with the program dollar reduction. Savings will be realized slowly as pipeline will need management attention.

V. Costs of change.

- A. Program reduction - In short term elimination of a sector will reduce program, ^{with} no advance planning for use of additional freed up resources, development of new projects/programs to take up the slack could require two years.
- B. Program effectiveness - Reduces areas of common interest for discussion with recipients. Loss of some agency skills which could be useful in other sectors.
- C. Workforce savings - Are likely to be disproportionate (smaller than) to the program reduction.

VI. Issues.

All AID sectors respond to/reflect some elements of U.S. constituency, e.g., in Education, AFL-CIO labor programs and the university community will perceive themselves as shorted.

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I. Greater coordination with other donors.

This change may have high potential for assisting program expansion. Looking at AID's experience, program size has tended to be larger in countries for which a donor group or consortium exists. For example, Sahel, Indonesia, Colombia in late 1960's and Caribbean Region. Such groups tend to focus on broad based needs assessments, stimulate country performance and help set donor targets all of which are key to enhanced program size.

Recently donor coordination has led to parceling out sectors and projects in particular countries primarily to avoid duplication of effort - an important but limited objective. The creative side of increased coordination which could involve development of co-financing proposals, increased sharing of project and sector analytical material and thus save project processing time for each donor.

II. Criteria for change

- A. Increased agreement among donors on individual recipient development directions and priorities.
- B. Increased understanding among donors and willingness to alter operational procedures to facilitate co-financing or collaboratively financed projects and to reduce difficulties in recipient countries in coping with differing donor procedures.

III. Degree of change and timing

It should be possible to explore in detail increased coordination in 3-5 countries per year. Results in terms of program expansion might flow 1-2 years later.

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IV. Benefits of change

- A. Program expansion - target should be to expand programs in countries for which close down coordination exists by 50-100%.
- B. Program effectiveness - coordination should enhance
- C. Workforce savings - negative

V. Costs of change

- A. Program reduction - none
- B. Program effectiveness - none
- C. Added workforce - Some additional workforce will be required - coordination is labor intensive. Perhaps 2-3 people during initial year of stimulating coordination in each country and 1 person whose primary duty is fostering the continued cooperation thereafter.

VI. Issues

- A. IFI's desire to maintain independence
- B. Explaining to host countries.

TASK FORCE

1. Sharply Reduce Centrally Funded Programs (DSB, PPC, PDC)

Eliminate all PPC research and other centrally funded projects, and most DSB research activities (much of POP activities ⁰¹⁴ as probably carried out more efficiently on centralized basis).

Basic research would be responsibility of ISTC; DSB would be limited to small staff of specialists managing IQC, and providing support to regional bureaus and field missions. Applied research, experimental and demonstration projects would be carried out by the field missions and DSB positions (and staff) would be transferred to missions to assist in research management process.

PPC's large staff should be examined in terms of what they are contributing to PPC's basic function. Duplication of technical staffs in DSB and regional bureaus is clearly unnecessary and wasteful.

Reduce PDC by at least 10 percent overall; and transfer RDP to Regional Bureaus and Missions.

II. Criteria for Change

1. Development programs should be planned and carried by field missions to insure relevance to developing world programs and avoid bloated Wash-
Washington Bureaus.

2. Staff levels should ^{be} proportioned ^{to} what they contribute to Agency's basic organizational product.

3. Bureau and office staff levels should be the maximum required to carry out the unit's particular function (e.g., "policy and program coordination" and "field support").

III. Degree of Change and Timing

Reduce DSB to staff of ± 50 (cut POP to 100 positions)

" PPC to staff of ± 50

" PDC to staff of ± 65

Could be phased over a two-year period.

IV. Benefits

A. Program Expansion

Shift of staff to field missions which are understaffed should enable them to increase capacity (± 25 percent) for project development and implementation.

B. Program Effectiveness

Considerable organizational disruption in DSB and in projects affected during transition period. Thereafter should have increase in effectiveness as marginal and irrelevant DSB and PPC activities are eliminated and remaining research focused on problems identified by LDCs, and ^{with} less people overall.

C. Workforce Savings

Considerable savings: 15 from PDC, 70 from PPC, (and 150 from DSB: Total 235. Estimate one-half of these positions could be abolished.

V. Costs of Change

A. Program Reduction

Marginal centrally funded programs cut out.

B. Effectiveness

None.

C. Added Workforce

None.

VI. Issues

-- University community would need to be assured of continued opportunity for collaboration under mission sponsored research -- a manageable problem.

-- Would probably need to run a CS RIF.

TASK FORCE

I. Shift to World Bank model re overseas organization

This change would largely eliminate field missions and have ⁶⁻ large AID/W staff planning and managing project out of Washington via periodic TDYs.

II. Criteria

Equal quality programs (in terms of development impact) can be accomplished without local field staff.

III. Duration

Total change and would probably take 2-3 years to accomplish.

IV. Benefits

A. Program Expansion

Would likely have a pronounced, negative impact unless program content shifted to less complex, large infrastructure projects and commodity budget support loans.

B. Effectiveness

No benefits ⁰⁾ currently measured.

C. Workforce Savings

Hard to calculate. Though field staff would be abolished, it is not certain how many less would be needed to manage programs from AID/W.

V. Costs

A. Program Expansion

Disruptive in short run. Likely change in nature and composition would be required to expand program.

B. Effectiveness

Highly destructive in terms of institution building, influence in shaping policies and programs in technical sectors

Loss of Ability to work effectively and build relationships in local environment and to change attitudes of local decision-makers regarding new and innovative approaches to addressing problems of the poor.

Loss of support for progressive and reform-minded elements with host government and private sector.

In sum, Loss of AID's comparative advantage among donors.

C. Workforce

Should not require more people.

VI. Issues

The basic issues:

A. Whether the Congress would support a bilateral program which was operated by another large, World Bank-like Washington bureaucracy.

B. Why have a bilateral program if it does little more than duplicate what the MDBs are doing? Wouldn't it be more efficient to abolish program and give money to IBRD?

JUN 25 1979

NOTE TO: NE/DP, Mr. Bradshaw Langmaid
FROM: LAC/DR, Marshall D. Brown
SUBJECT: Program Modifications -- LAC Bureau Views

1. Larger Project Units

This is a very promising way of doing more without increasing staff. While there clearly are country specific factors which need to be taken into account, it should be possible to increase the average project size by at least 50 percent and thus be half way to our target of doubling AID levels without increasing staff. In the LAC Bureau, I estimate that we could double the average project funding level without increasing workforce levels. Though several missions currently do need additional staff, the Bureau has a "core level" of managerial, financial and technical skills capable of supporting substantially higher programs levels, because of certain economies of scale, without commensurate increase in the number of staff.

I would also argue (a) for setting minimums for project funding (except where a small grant is being used to lay the analytic framework or build the institutional base for a larger program) and (b) for holding mission director -- and AIs -- strictly accountable for delivering larger mission and bureau programs on a timely basis. Limiting the minimum project size would directly reduce the number of project units and free up staff time for more efficient planning and management of fewer but larger projects.

I would also stress that if we want to move twice as much money, then we'll need to have mission directors who are managers and producers, not scholars or research enthusiasts; and their retention and advancement should depend on what they achieve as managers, not who they know. This was an area where Johnny Murphy was on the right track.

2. Full funding of projects

This has been the general rule in the LAC Bureau though it has been unevenly applied in the case of grants. We would encourage its adoption throughout the Agency. While it would permit larger obligations, it is not clear there would be any personnel savings.

3. Broader Sector Assistance Approaches

This is one technique for carrying out larger project units where a variety of things are to be done. It is a tool for the imaginative and innovative. However, depending on whether it is a "program-type" or "project-type" sector approach, it may or may not have any impact on reducing workforce levels. It can be used to create a framework for multi-year assistance tranches in support of an agreed sector development plan. Our experience has been that the sector approach has worked best in countries which have the institutional capacity to develop and implement sector plans. This obviously includes the advanced developing countries, but we have also used the approach in countries such as Honduras, Nicaragua, Bolivia and the Dominican Republic.

It is not a cure all, but given strong AID/W encouragement and TDY support, it probably could be used to package 15-25 percent of a bureau's program into larger sector units. It should be/as a sub-set of point one above, "larger project units."
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4. "Country Assistance" (program lending)

This could be a very significant technique for relatively rapid transfers of assistance. It would be most appropriate for those countries which have undertaken broad structural reforms, have developed plans for meeting the basic needs of their population, and need external assistance to carry out those plans (e.g., Peru, Jamaica, Guyana, Panama, Costa Rica, Sri Lanka, etc.).

If these programs were justified in terms of macro-economic considerations, we would need to marginally increase the number of program economists in the field missions. (Perhaps we could draft the legions of GS economists in IIA and PPC!). I suspect we could rely on the IMF and IERD for a good deal of the analysis which would be required.

The potential for increased resource transfer/is considerable. In LAC, we could probably absorb an incremental \$100 million in FY 80 without difficulty.

5. Infrastructure

In many cases, infrastructure financing is essential to future growth and development and to the satisfaction of the basic needs of an ever-increasing number of the poor. ^{pointed out in} As the DCC Policy Paper, dated March 20, 1979, on the "Evolution of the Basic Human Needs Concept," higher levels of economic activity are essential to provide access to basic goods and services by the poor on a sustained basis. The impact of infrastructure on the poor may be long term, indirect and non-exclusive; what is important is that the impact be verifiable and significant.

If we were to focus attention on infrastructure financing (and without trying to bid away IBRD hydro projects) in the LAC region, I would estimate that we could increase our annual program level by at least \$100 million -- over and above the doubling projected in item one above. (I believe the problem alluded to in John Koehring's paper on this subject can be dealt with by having PPC clearly announce a policy of infrastructure financing and by holding the directors and AAs accountable for enforcing this policy.)

The development of a methodology for impact analysis is not an insurmountable problem. Indeed, the IDB is currently engaged in this very exercise. Support for infrastructure should not require any additional staff, though some missions might need to convert some local hire, sedan chair bearers into engineering positions.

6. Use of Intermediaries

Intermediaries such as PVOs can be used to take up the small project slack resulting from putting a minimum on project size. They can be an effective complement to direct AID projects, but cannot be used as a substitute.

AID has a comparative advantage in several areas:

-- first, AID is unique in having a field staff who can identify and support progressive and reform-minded elements within both the government and the private sector. This staff can help to build local constituencies in support of new and innovative approaches to the problems of development.

-- second, AID's field staff has proven essential in the long and difficult process of indigenous institution-building. The close and frequent contact between local leadership and skilled project designers/managers has often been the critical ingredient in a successful institution-building project.

-- third, AID has developed a proven methodology for conducting sector assessments which identify sector problems and constraints, analyze inter-relationships and set forth priority actions and investments. When prepared on a collaborative basis, these assessments have proven to be highly effective tools for changing local attitudes, perceptions and perspectives on sectoral problems, priorities and approaches.

-- AID has also shown itself to be the most effective of the donors in integrating technical and financial assistance into programs focused on developing necessary policy frameworks, building institutional capacities and supporting action programs. Frequently these programs create a mechanism for follow on assistance from the IFIs.

The following quote from a PPC paper best sums up what makes AID unique:

"A.I.D. has worked out a combination of features unique among aid donors for such a role. It can offer very flexible combinations of loan and grant and technical and capital assistance. Through its resident field missions it can maintain very close working relationships with host officials, and analyze and adapt to rapidly changing circumstances. It can take the risks that come with the experiments needed to find solutions to development problems. These features put the Agency in a favorable position to help countries design their development strategies to take account of the basic human needs of their populations, and to attain the capacity they need to solve the attendant problems."

The bilateral AID program provides the "venture capital" and incentives for pioneering new developing approaches and adopting new technologies that often can not be implemented with other funding sources.

-- AID has the capacity to mount action programs very rapidly when U.S. policy requires active economic support for a country -- whether to stimulate the level of employment or to help address a balance of payments problems; and

-- lastly, when appropriate, AID can be used to clearly send a signal that the U.S. is (or is not) supporting a particular set of host country policies, a particular segment of the population or the local government itself.

7. Use of Other Donor Assessments

No breakthrough here except perhaps in the area of program lending.

8. Role of Centrally Funded Programs

In a lean organization which is concerned with increasing resource transfer levels, centrally funded research programs constitute a diversion of valuable staff and contribute little to our basic organization product. The volume and variety of centrally funded programs are much too great. I would argue for a sharp reduction if not total elimination of centrally funded programs.

A large proportion of DSB staff should be transferred to the regional bureaus and the missions, and the remaining staff should concentrate on providing backstopping services to our missions.

Conclusion

Doubling our program level by 1980 without increasing staff should not be that difficult; it can be accomplished by a series of adjustments at the margin in our current operations:

- increasing average project size by 50 percent
- limiting the number of small projects (estimated 10-20 percent increase in field productivity)

-- increasing the use of sector assistance packages and ICI-like intermediaries in many countries (techniques for increasing average project size);

-- not tying ourselves up in knots with regard to the amount of project and beneficiary analysis required for project authorization. (Estimate 10-15 percent increase in field staff efficiency possible)

-- and "country assistance" selectivity to program (estimate 20-30 percent increase in program level possible worldwide)

-- financing EFN-related infrastructure (estimate 20-25 percent increase in program level worldwide)

-- transferring positions from DSE and PDC to the regional bureaus and missions (20-25 percent increase in field workforce capacity);

-- recognizing that in real terms we will only have to deal with a volume which is some 50 percent greater than current levels.

cc: LAC/DP:JSanbraillo/GH11
AFR/DR:JNoehring
ASIA/PD:DBrennan
NE/PD:STaubenblatt

Comments on Program Expansion and Workforce Saving Taskforce

LA really isn't the issue -- our OYB for this year is around 42 and we have \$50 million in shelf loans so there is no question that we can handle higher levels (and we can do it more efficiently if we follow some of the suggestions which the Bureau has already made to the taskforce. We also favor staggering the program, i.e., a few large loans in, say, half the countries one year and the same in the other half the next year so people have time to worry about implementation and evaluation as well as project preparation. In addition, we have already adopted some other techniques suggested in the paper, i.e., one Caribbean office dealing with regional institutions while PVOs and the Peace Corps are relied on to carry out smaller activities on the individual islands. The office is presently understaffed at 12 but with 15-18 they could probably handle the 40-50 million annual program. If substantial increases were projected for LA we would close out Chile and Colombia (saving 9 direct hires and 27 locals) and give increased emphasis to the Andean Pact (especially since regional cooperation is again the vogue in the White House) an Andean regional program of around \$50 million a year should be feasible and it wouldn't be too labor intensive.

In summary, LA could easily double by

- (1) closing 2 missions
- (2) concentrating on larger loans and staggering the loans
(i.e., odd and even)
- (3) increasing attention to regional cooperation

- (4) reducing the number of LAC regional projects in Washington and concentrating the remaining projects on new initiatives (energy, etc.)
- (5) mechanize the controllers' operations in the field (saving around 50 local positions over the long run).

As for AID/W, a basic problem is that each office wants to have projects in addition to their other functions and they become so intrigued with running them that they forget their basic responsibilities. For example, going beyond DSE, why should PPC spend \$7 or \$8 million per year in "projects", i.e., population research, etc.? We would go beyond that and question many of the regional projects carried out by the Bureaus -- it's interesting to note the difference in Bureaus.

- (1) Near East's regional projects total \$7.600 million for 1980 and it's concentrated on PD & S and PVOs except for one project in energy and one called Law and Development.
- (2) LA's projects fill two pages in the Congressional and total 30.7 million for 1980 -- note that a co-op training project in Puerto Rico started in 1954 is still being disbursed in 1979! In addition, we've got crop insurance, bats, rats, appropriate technology for women, experiential radio education, radio schools of LA, ed. media for the integration of women, home instruction early intervention, etc., etc., etc.
- (3) Africa runs on for two pages and it's hard to figure out what they are doing.

The point is that a lot of time is spent on this stuff and some of that time might more logically be spent helping the Missions (or the people might be transferred to the Missions). Any radical change would be to ensure that the only people who will carry out projects are the people in the Missions -- the only regional projects would be ones where it's more economical to administer it regionally (e.g., AIFLD, LASPAU, etc.) or new initiatives where we want to avoid duplication of effort, e.g., the energy stuff we've talked about.

The purpose of the exercise is to find ways of doing more with the same or fewer people so some thought should be given to the possibilities of getting more out of what we have or changing the mix. Stafford and others are probably studying this area but here are some possibilities.

- (1) Mechanize controllers' operations overseas, have regional financial service centers, etc.
- (2) Look at the whole question of travel vouchers, travel services, etc., for example, if the ticket costs X and the per diem is Y , why not give the employee the money and let him take care of himself.
- (3) Look at local employee staffing -- as of May 31 we had 1471 U.S. nationals overseas and 2028 locals but what are the locals doing?
- (4) Put more emphasis on local employee training so we don't have to have Americans fooling around as personnel officers, CSOs, and even engineers, program documentation specialists, etc., i.e., locals as technical co-workers rather than simply support personnel.

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(5) Examine our role in infrastructure projects. For example, on a project in Bolivia (1 and 4) an engineering office had to approve over 300 change orders and each approval involved a trip to the project site -- could we contract with an engineering firm to do this type of monitoring?

We submit that even if we continue to do projects as we are presently doing them, we could greatly increase levels by freeing up more people to join the "doers" -- i.e., DSB from 352 positions to 52 = +300; 200 or 300 sedan chair operators, carpenters, light bulb changers, etc. among the 2028 foreign nationals; 100-200 local employees in the controllers' offices overseas; travel voucher clerks in AID/W; people in DRs and DPs helping Missions instead of worrying about regional projects (and DSB, PPC projects), etc.



M. Hunter log

BOARD FOR INTERNATIONAL FOOD AND AGRICULTURAL DEVELOPMENT
Department of State
Agency for International Development
Washington, D.C. 20523

August 6, 1979

MEMORANDUM

TO : PPC, Alex Shakow
FROM : BIFAD, *D. Woods Thomas*
SUBJECT: A Draft Plan for Expansion of AID Program with Stable or
Reduced Staff Ceiling

I appreciate the opportunity to review and comment on Allison's paper referenced above. This paper is addressed to a very real problem. If the assumed levels of funding should materialize, it's clear that some basic changes will need to be made; if they do not, I'm of the opinion that the same problem, perhaps of lesser magnitude, exists and we need to look at alternative formats for doing business.

In these respects, we have been "worrying" about the problem. Our staff put together a draft "think" piece on the issue. I sent a copy to Tom Ehrlich; in case you haven't seen it, I'm attaching a copy. There may be a useful idea or two in it which bears on the present problem.

My reactions to Allison's paper are varied; let me enumerate a few.

First, it seems to me desirable to look at some alternatives to the mechanisms whereby AID makes its investment decisions and carries out its program of work. As we have argued in other fora, there are good reasons to doubt that the present system leads to an allocation of AID's limited resources in a manner which maximizes the US's impact on development in the LDC's. It is likely that this situation will be exacerbated as funding levels increase.

Second, the proposed "model" is one of "farming out" a great deal of the Agency's program development and implementation functions to "intermediaries" of one kind or another. This, it seems to me, could make AID essentially another "financial institution" retaining only oversight and policy responsibilities. The questions which this raises are associated

with the traditional uniqueness of our bilateral assistance program and whether or not this would obviate the potential for exercising the true comparative advantage of the U. S. in the development assistance realm. It raises the question of a built in tendency, especially with increased funding, of even greater reliance on "capital transfer" vs "institutional and human resource development" interventions. To the degree that it would bias the program in this direction, I have serious concerns relative to the proposed approach.

Third, the discussion of the "intermediaries" envisioned is troublesome. This stems from several things. As I read it, one set of such intermediaries would be new, special-purpose organizations set up to be AID surrogates; i.e., essentially "little AID's." In view of past experiences with such, it seems to me that the probable effectiveness and efficiency of such organizations ought be most carefully appraised before such a course of action is taken. Equally, there exists a whole set of questions about the wisdom of using the international or multinational organizations cited as principal "intermediaries" for the conduct of our bilateral program.

This is not to say that I disagree with the "intermediary" concept. Given the constraints, there isn't much option. The questions are: what intermediaries, to do what and under what set of conditions?

Currently, some 60% ± of AID's program is agriculture. This is as it should be if we are genuinely concerned with LDC development. Given increased funding, it seems likely that our programs will remain predominantly within the rural sector--at least they should.

In reading the referenced paper, I was absolutely amazed to find no single reference to the U, S, Colleges of Agriculture, Veterinary Medicine and Home Economics and the USDA as the "chosen instruments" to serve the "intermediary" role in the most important economic sector of the LDC's and for the functional area in which most of our bilateral effort is and should continue to be made!

The point is that we have, in these institutions, the most effective, most experienced, most powerful agricultural development outfits that the world has ever known. This is the point that Clif Wharton, many others and, particularly, the Congress have been making for the last three years. Also, the statutory fact that the Title XII Amendment instructs the Agency to utilize these institutions in precisely the "intermediary" or "partnership" role now being considered is difficult to bring into focus with the proposed "plan." In my view, it would be criminal not to utilize the Title XII institutions in a role that they are uniquely qualified to play, in an arena in which many are highly experienced and for a mission which they are eager

to undertake. To think in terms of creating new "intermediaries," financing international organizations or funding LDC national organizations to carry out agricultural development programs in lieu of utilizing the great national resource already at the Agency's beck and call is irrational.

Further, there exist other U. S. public institutions having unique, non-reproducible expertise to treat effectively development problems in the non-agricultural sectors of the LDC's. It would be foolish not to find means to "harness" such talent to play the "intermediary" role in a program of great national import.

Fourth, I have real trouble with the concept of the proposed personnel make-up of the USAID missions as conceived in the "plan." As I understand it, one of their purposes would be to "influence policy directions of the recipient country." I seriously doubt that a small cadre made up of the kinds of development generalists specified will have any appreciable effect on LDC national policy. It has been my observation that outside "inputs" to the policy-making process in the LDC's have been most effective when contributed by highly respected, knowledgeable professionals within the particular economic sector to which the public policy is most relevant.

Fifth, I have trouble with the Type I through Type IV categories of countries. These seem to be quite arbitrary except as a function of program scale. I suspect that the essential functions of an effective AID mission in a diffuse operational model are scale-neutral. Variants of this aspect of the proposed plan are possible and ought be explored.

Having been a bit "critical," let me try to be more positive by suggesting a variant of the "model" sketched out on the referenced paper. I believe this variant would handle the "AID manpower" problem, be consistent with our development assistance objectives and maximize the impact of whatever level of funding might be available.

Fundamental elements of this model are:

1. USAID mission would become "foundation-like" entities staffed with recognized, senior, experienced professionals having their "roots" in the disciplines of the economic sectors involved in the U. S. development assistance program in each country. Missions would be small varying with the size and componentry of the U. S. program. Professional personnel would be "permanent," prepared to spend a major portion of their careers in the country of assignment. They would be responsible for doing the hard analysis involved in identifying problem areas in which the U. S. would have true comparative advantage in participating. They would help orchestrate collaborative efforts within their area of competence. They would

be the "official" interface among cooperating parties. They would come to know the indigeneous "actors," both individuals and institutions, of importance and relevance. They would be the source of knowledge vis-a-vis the peculiarities of working effectively in the country.

Parenthetically but importantly, such an entity could serve AID and ISTC equally well.

2. The operational "intermediary" would be a "lead" U. S. institution having the interest, commitment and expertise to accept primary responsibility, over a long period of time, for U. S. contributions to the development of the host country's agricultural (or other) sector. In the agricultural sector, this would be an appropriate Title XII institution. In partnership with the host country and AID, this "lead" institution would do such things as:
 - a) develop and implement the U. S. program for the sector
 - b) identify and engage other U. S. institutions (public or private) to take responsibility for particular parts of the program, as required.
 - c) arrange, through its institutional contacts, for essential short-term consultants, backstopping research, technical services and the like.
 - d) assume responsibility for essential education and training of host nationals
 - e) prepare and defend, as required, the U. S. agricultural (or other as the case might be) development program for the country.
 - f) develop an institutional knowledge base relative to physical, biological, economic, social and cultural factors affecting the development of the sector.
 - g) etc.
3. AID/Washington would perform the essential aggregate analytical work, arrange for the mobilization of the U. S. "intermediaries," arrange for centrally funded functions such as research, establish Agency development policy, assure consistency between policy and programs, etc., etc.

The above is sketchy. However, I believe it has merit and should be explored.

Attachment a/s

cc: BIFAD Members
Chairman JRC
Chairman JCAD

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AID's Dilemma: Increasing Budget

With Fixed Workforce

I. Introduction

The burden of the argument in this paper is that subjecting AID's current programming process to an increasing budget and workload, but with a fixed or even declining staff, will result in a foreign assistance program whose policy content is increasingly divergent from the Congressional mandate. The basic conclusion of the paper is that AID's programming process and associated staffing pattern must be substantially modified, in order to maintain the integrity of U.S. development assistance policy as the program expands, given a workforce constraint.

Official policy for providing U.S. assistance to the developing countries of the world is set forth in the Foreign Assistance Act of 1961 as amended. Responsibility for implementing this legislation is vested in the U.S. Agency for International Development (AID). Several disparate policy papers have been prepared by AID in order to clarify the Congressional mandate and provide more explicit guidance for AID officials as they develop assistance programs.

A systematic process has evolved within AID for the programming of development assistance policy. This process comprises conceptualization, design, implementation, monitoring and evaluation of projects and programs. It is characterized by: (1) an elaborate procedure for approval at every stage; (2) procurement of program inputs from institutions and private contractors; (3) occurrence on a cyclical basis in consonance with the annual budget cycle of Congress; and (4) decentralization of decision

making, with AID Missions in recipient countries being increasingly responsible for program formulation. As AID has carried out its programmatic function, mainly in technical programs areas, a complex bureaucracy has evolved which largely and increasingly is staffed by non-technical personnel.

The current administration has proposed to increase AID's budget from _____ in FY 80 to \$2 billion in FY 81, and a projected \$4 billion in FY 83. However, any growth in AID's development assistance program will likely have to be implemented without an increase in personnel, according to signals from the Administration and the Congress (the current personnel ceiling is 5,160). In fact, AID is more likely to suffer a reduction in personnel, since the proposed Institute for Scientific and Technical Cooperation (ISTC) is programmed to absorb 160 AID people in early FY 80.

Even though AID's expanding program is subject to an increasingly serious workforce constraint, the basic objectives of U.S. development assistance policy, as prescribed by the Congress, must be realized. However, available evidence suggests that such objectives are not being fully realized, even in AID's current development assistance program. The implication, which is substantiated in this paper, is that AID's current development assistance program, its programming process, and the organization and deployment of AID personnel must all undergo significant modifications.

This paper proceeds by examining, in Section II, the impact of an increasing AID budget and concomitant manpower constraint, on AID's current program, programming process, and staffing pattern and manpower

requirements. Section III of the paper focuses on management alternatives for coping with the increasingly serious manpower constraint, that are also more consistent with the objectives of U.S. development assistance policy.

II. Increased Budget, Fixed Staff and AID's Existing Program

This section analyzes the effect of an increasing budget in the face of a manpower constraint on AID's current program, assuming no remedial management actions are taken. The method of analysis is to treat AID's current program, its programming process, and its manpower base and staffing pattern as discrete and to examine the effect of a rapidly increasing budget on each. This abstraction facilitates identification of cause and effect relationships among AID's current program, programming process, and personnel and staffing patterns.

A. The Current Program

AID's current program contains, de facto, the development assistance policy of the United States. There is some evidence that major components of the program are beginning to diverge from stated AID policy. For example, a comprehensive review of the rural and agricultural components of the various Country Development Strategy Statements (CDSS) was recently completed.¹ This review found that only 7 of 49 CDSSs which were to "... express the missions' understanding of the overall development problems and issues; propose what objectives, policies, and programs AID should pursue; and explain the reasoning behind the choice," -- were of superior quality.² Furthermore, the CDSS review found that only 14 of the 49

¹ Mann, Fred, "Review of Agricultural/Rural Development Aspects of Country Development Strategy Statements and Evaluation of AID Review Process: A report of BIFAD Findings and Recommendations," Board for International Food and Agricultural Development, Washington, D.C., June 1979. (Mineograph draft)

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presented a strategy and program for agricultural and rural development that was clearly consistent with stated AID development assistance policy, while 12 of the 49 CDSSs proposed assistance programs that bore little relation to AID policy.

The Board for International Food and Agricultural Development (BIFAD), in its annual recommendations concerning the AID Food and Nutrition program for FY 80 expressed (...a basic concern that the FY 80 AID program for food and nutrition may not accurately reflect ...the recent Agency policy directive for agricultural development contained in the Agricultural Development Policy Paper...there appears to be a significant divergence between the portfolios of food and nutrition projects in existing country programs, those proposed in the FY 80 budget, and the portfolios that would be expected if the guidelines in the Agricultural Policy Paper were carefully followed.)^{3,4}

Thus, there is evidence that suggests the policy content of AID's current development assistance program (at least in Food and Nutrition) is already showing some signs of deviation from official policy guidelines. The question for management is why? In my opinion, this has resulted primarily because AID's programming process, when subjected to an increasing level of budget and workload, with fixed personnel, tends to mask and distort policy objectives and priorities. If so, then further increases in the AID budget can be expected to seriously exacerbate the problem. The rationale for targeting on AID's programming process is now discussed.

² Airgram from USAID/Washington to Mission, "Guidance for the Country Development Strategy Statement (CDSS)," AIDTO CIRCA-384, 19 pages, 9/16/78, p.2.

³ BIFAD, Budget Recommendation (Washington, D.C.: USAID, October 1978), p. 2.

⁴ The paper referred to in the quotes is USAID, Agricultural Development Policy Paper (Washington, D.C.: PIC, 1978).

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B. The Programming Process

An increasingly complex, monolithic process for formulating and implementing the U.S. development assistance program has evolved within AID. While not described in detail here, an elaborate, highly structured procedure for documenting, and for approving programs and projects is required at every stage of the programming process--during conceptualization, design, procurement of necessary inputs, implementation, monitoring, and evaluation. At each stage several horizontal levels of management from outside the technical program area are required to "sign off" on the documentation. In essence, a relatively large number of well intentioned staff, representing a diversity of non-technical AID offices, each have the power to say "no" to some proposed program at every stage of the programming process.

Furthermore, the programming process is cyclical in nature and designed to coincide with the congressional budget cycle. Thus, AID missions face annual deadlines for submission of documentation which tends to result in a substantial increase in workload as the fiscal year draws to a close. Finally, the Congress has imposed a relatively short run horizon with a three year funding limitation (Section 110(b) of the Foreign Assistance Act of 1961 as amended).

As the programming process has, itself, become more complex and cumbersome, the budget and volume of AID business has increased substantially. However, AID's workforce has remained relatively constant resulting in a significant increase in workload.

The increased workload has seriously strained the capacity of AID missions to respond. Emphasis has shifted almost completely to conceptualization and design of new programs and projects with little time for implementation, monitoring and evaluation. The frustrations of dealing with the complex of regulations and procedures is illustrated by the following statement taken from a Mission cable (which remains anonymous) directed to AID/Washington.

Project implementation...is evidently ranked below design, review and obligation, innumerable and sundry reports on WID, 102(d), 104(d), Fertility, Contraception, PVO's, ABS's, CIP's, and CDSS's.

many AID mission personnel have expressed, both publicly and privately, serious concern over the rising workload.

As a consequence of the increasing paperwork load, and the fixed staff, missions and AID/Washington tend to have, as a management objective, the maximization of the dollar amount of loans and grants per unit of time required in preparing supporting documentation. The focus of AID's effort and its primary objective seem to be obligating funds rather than implementing and evaluating projects for addressing the basic causes of poverty and backwardness.

This, of itself, results in a bias toward larger projects (especially in agriculture and rural development) which generally tend to comprise transfers of physical capital and credit. In contrast, projects which focus on developing human and institutional resources tend to get short shrift because of the demands placed on AID Mission personnel during project conceptualization, design, and procurement of project inputs.

Such institution building projects tend to be much smaller in terms of dollar volume than physical capital transfer projects and consequently, require much more time per page of documentation. They are "people intensive" which also requires more mission staff time and results in a more visible American presence contrary to the Embassy's policy of "low profile". For these and other reasons, there is likely to be substantial resistance to conceptualizing and designing human and institutional resource development projects.

Yet AID's Agricultural Policy Paper indicates that:

A major tenet of AID agriculture development policy is that a substantially greater commitment is required for the development of agriculture technology and its delivery to farmers. It is anticipated that nearly all missions will support some activities in the technology area, perhaps particularly those to strengthen nationwide agricultural research systems and to train the requisite personnel...⁵

In adopting this strong policy guideline the Policy Paper agreed that:

...(2) effective nationwide systems for linked agricultural research, education, and extension remain very deficient or even non-existent, especially in the lowest income countries, yet are critical for the utilization and adaptation at the country level of the results of the international research centers, (3) the establishment of effective, self-perpetuating systems is a long run proposition requiring a decade or more of sustained, highly professional technical assistance; and (4) the U.S. has special competence in these fields, as reflected in the Title XII mandate.⁶

However, the Policy Paper warns that AIDs demanding programming process may severely restrain the development of such projects:

⁵ USAID, Agricultural Development Policy Paper, p. 18.

⁶ Ibid.

While these controversial projects may eventually be approved, the process is often prolonged and time consuming for mission and Washington staff. As a consequence of this experience, potentially controversial projects may never be developed by missions in the first place because of the prospect of a prolonged, difficult review process. The kinds of agriculture project proposals which tend to be controversial are those which strengthen nationwide agricultural institutions of research, education or extension...⁷

Increasing the AID budget with a fixed or declining staff will undoubtedly place additional strain on the AID programming process.

Given the monolithic, inflexible nature of the programming process, the end result is likely to be a program whose de facto policy content deviates significantly from AID's formal policy objectives. Concomitantly, changes are induced in AID's staffing pattern which are now discussed separately, although they are clearly interrelated with the programming process and the program.

C. AID Manpower and Staffing Patterns

The increasing work load has had two principal negative effects on staffing patterns in AID. First, the number of technical and professional personnel in the Agency, especially in the disciplines related to agriculture and rural development, has been declining during the past several years and is currently at its lowest point in AID's history. Second, there has been increasing support for decentralization of decision making, accompanied by a shift of AID personnel from Washington to the field.

⁷ Ibid., p. 7

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The flight of technical and professional personnel has been constant for the last several years, and shows no signs of abating despite a major effort on the part of the Agency to recruit replacements. There are many reasons proffered for the depletion of technical - professional people in AID. One study of the Asia Bureau reveals that such people are routinely passed over for promotions to the higher grades. A related finding indicates that the senior management positions, where final program approval is vested, are almost exclusively held by non-technical people. Technical staff, who often find their program recommendations modified by such superiors are often unwilling to continue employment under such circumstances.

As technical people have resigned from the Agency, they have been replaced by relatively young people with management and writing skills more appropriate for processing large volumes of paper work. This is a natural result, induced by the requirements of the programming process. Technical-professional people generally do not have the formal training and skills to deal with the increased flow of paper and seek alternative employment when called upon to constantly work outside their disciplines.

An increased AID budget will hasten the departure of AID's technical-professional cadre, and will induce their replacement with people who are more efficient in processing the increased paperwork load. AID personnel, with little or no training in the hard scientific disciplines related to AID's principal focus - - food and nutrition,

health, education, and population -- and with little experience in AID programming are increasingly utilized for formulation of AID's program and de facto for formulation of U.S. development assistance policy). These well intentioned civil servants often tend to develop programs and projects which are palliative in nature, addressing the symptoms rather than the causes of poverty and backwardness. The trend toward reduced technical-professional staff is important in explaining the Agency's emphasis on physical capital transfers, rather than development of human and institutional resources.

Decentralization of decision making, and the emphasis on putting staff in the field can be explained, in large part, as logical responses to AID's increased workload, and its demanding programming process. Decentralization of authority for program approval is apparently done in order to reduce the number of steps in the process, or at least to exercise more direct mission control over those steps so that the amount of time required for programming can be significantly reduced. For example, one study of two projects in Latin America revealed that the procurement of contractor services for implementing the project required 258 days and 162 days respectively after the project paper was approved. The total time required from conceptualization to implementation of projects is well over two years in many cases.

Mission reaction is understandable, and the remedy is to decentralize so as to gain more control over the programming process. This requires that mission staff be increased to handle the now increased mission workload, for the programming process remains virtually unchanged.

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As the volume of AID business is increased, there will undoubtedly be increased pressure for decentralization for the reasons discussed above. Unfortunately, decentralization will undoubtedly require an increase in AID staff, assuming the existing programming process is maintained. Some parts of the programming process undoubtedly exhibit scale economics. For example, it will clearly require a large number of personnel to decentralize the procurement and contracting functions, than to completely centralize them. Furthermore, the cost per field based employee will be substantially higher. Similar comments may well apply to other components of the programming process.

Thus, the trend to decentralization of decision making appears to be inconsistent with the resource constraint currently facing the agency.

As the AID program increases with a fixed staff, the flaw in the decentralization thrust will appear in the form of insufficient people to staff each mission as required by the current programming process. This will reveal the programming process itself as the basic target for management intervention.

III. Alternatives for Management Intervention

If the integrity of U. S. development assistance policy is to be maintained, as proposed increases in AID's budget are programmed by a fixed or even a declining staff, then management intervention is necessary. Give the arguments in Section II, the principal targets for reform are in the AID programming process itself. This section discusses management alternatives for coping with the workforce constraint. These alternatives, which are not necessarily mutually exclusive are examined at various stages in the programming process including: (1) conceptualization, (2) design; (3) procurement of project inputs; (4) implementation; (5) monitoring; and (6) evaluation. In the ensuing discussion, it is assumed that the "new directions" mandate is in effect, and that recipient countries, and target clientele and sectors are parameters prescribed by law rather than variables for management manipulation. In reality, there may be some limited possibility for AID management to decide the countries or sectors in which it chooses to work.

A. Program Conceptualization and Design

Currently, program conceptualization is largely carried out by field staff with policy guidance from AID/Washington. The Annual Budget Submission (ABS) is prepared each year by mission staff, well in advance of the start of the fiscal

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year, and contains the proposed program budget for continuing and new projects. This document is usually supported by a current sector assessment in each major sector of focus, and by the CDSS.⁹ After submission of the ABS, the mission proceeds to develop its program by preparing Project Identification Documents (PID's) which must be approved by AID/Washington for each project under consideration as part of the development assistance program. Responsibility for approval is vested in a committee chaired by a Geographic Office or "Desk". AID has traditionally developed its PID with "in house" personnel but increasingly has turned to individual and institutional contractors for this service.

There are several interrelated management actions which could be taken to improve program efficiency at the conceptualization stage:

- (1) Centralize, in AID/Washington, the approval of each missions proposed program on the basis of its policy content. Such an action would require missions to pay much more attention to policy directives and to the structure of their overall program rather than concentrating on specific projects. This could free some field staff to constitute

One major dilemma for AID, pointed out above, is that the policy content of the various country programs is increasingly divergent from official U.S. policy, despite various directives provided by AID Washington.

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a Washington based technical Policy Review Committee with power to reject an ABS or any component project that was deemed inconsistent with AID policy objectives. This committee might well replace the PID review committee with simultaneous scrutiny of a program and its component projects, for policy content and internal consistency.

(2) Eliminate the PID and related approval processes.

The PID process is extremely inefficient. The PID review committee is relatively large and unwieldy. Under current practice a large number of people who are not members of the committee attend committee meetings and take up large amounts of time during the review. Work force productivity can be greatly increased by taking this action.

(3) Require the development of sector wide projects which are less structured. Such projects can provide for greater flexibility to modify the program over time in response to changing conditions and reduce the need for extensive future documentation. The agricultural project in Yemen (279-0052) is a good example.

(4) Prescribe a minimum size for projects in order to limit the number of projects in a mission/country program.

(5) Require that all projects be as long as the law

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permits for projects in that functional account.

(Some accounts have an automatic waiver of the Section 110(b) three year limitation when used for certain purposes -- e.g., Section 103 funds used for Title XII projects are waived under Section 299(a).)

- (6) Obligate funds for longer periods than is now the case -- up to life of the project.

B. Project Design

In the current AID programming process, great emphasis is placed on project design. Once a PID has been approved, the mission proceeds to design the project. Actual design may be done by the mission itself or by institutional and private contractors. If done under the collaborative assistance mode of contracting, which may be utilized when project inputs and outputs cannot be clearly defined, an institutional contractor can both design and implement the project.

The end product of the design activity is a Project Paper (PP) which must be approved by a Project Committee in AID/Washington. Funds for project implementation can not be obligated until the PP is approved.

There are also several reforms which can be made in the project design phase. These interventions are also interrelated, and depend to some extent on the adoption of reforms suggested for the conceptualization stage.

- (1) Contract with institutions for all project

design activity. Such action will free up mission staff time by utilizing a uniform design process. Once a mission/country Program has been approved by the proposal Policy Review Committee its component projects are more amendable to design by an institutional contractor. In this regard, the collaborative assistance mode of contracting is especially attractive since it provides for continuity with the contractor both designing and implementing the project.

(2) Eliminate the AID Washington Review of the PP.

As with the PID review this is a time consuming, inefficient process. Once again the PP committee tends to be large. Relatively large numbers of people generally attend PP reviews further reducing workforce productivity, and timely approval and implementation of projects.

(3) Delegate authority for approval of the PP to mission.

C. Procurement of Project Inputs and Implementation

Procurement of inputs for implementing projects (and for project design) is one of the most inefficient aspects of AID's programming process. There is a hodge-podge of procurement mechanisms for obtaining services, commodities, and equipment from individuals, and public and private institutions. Obtaining the services of an education institution contractor for implementing a project, or for designing and implementing under the collaborative assistance mode, is an especially time consuming process.

In both cases, a Project Panel must be constituted, and develop a "short list" of institutions most qualified to undertake the project, and the criteria for their inclusion on the list. The Panel must also write the justification for using the collaborative assistance mode of contracting (in that case). Finally, the Panel must develop and write the criteria to be utilized in judging the expressions of interest or technical proposals that are received. Once this process is completed the Contracts Office of AID mails requests for responses to the institutions on the list. The responses are then evaluated by the Panel which informs the Contracts Office of its decision. The Contracts Office then informs the institutions and proceeds to negotiate the contract.

This process, which is generally carried out in Washington, may not involve the mission or host government in selecting the contractor which results in understandable friction. Unfortunately, Project Panels tend to be chaired by relatively junior people with extremely limited experience, and little or no technical training. They also tend to have relatively short tenure in their positions which greatly exacerbates the problem of procurement. As a result, procurement of the services of educational institutions has become a severe bottleneck in AID's programming process.

There are several options for improving the productivity of AID's Staff in the area of procurement.

- (1) Develop cooperative agreements with institutions

which AID usually utilizes. Many such institutions simultaneously have several AID contracts and grants, yet every time AID requires their services, a new contract or grant mechanism must be developed. With a cooperative agreement, missions could obtain the services of institutions without a protracted contracting process. This option is currently being pursued for implementing agricultural projects under Title XII.

- (2) Decentralize authority for contractor selection to the mission and host government and eliminate selection by the AID Washington Project Panel. This will legitimize what occurs in many cases where Missions make the de facto selection of the contractor, and the deliberations of the Project Panel are nothing more than an elaborate charade to satisfy the formal requirements of the process. At the same time, such decentralization will greatly facilitate procurement, and free staff for other duties.
- (3) Centralize the development of short lists of institutions capable and interested in project design and implementation. Missions would send a description of their project to Washington where a data bank on institutional resources would be searched in order to determine in rank order the most qualified institutions. The mission would be required to select from among these institutions, on some objectives basis. The data bank system is currently being utilized to identify institutional contractors for Title XII projects.
- (4) Centralize in Washington, the procurement of services under the cooperative agreement and other mechanisms.

Economies of scale and fiscal responsibility demand this. The current trend toward regional and mission contract authority should be carefully reexamined.

D. Implementation and Monitoring

Currently, most implementation is undertaken by individual and institutional contractors. In some cases, missions have tended to opt for individual personal services contractors and directly manage the technical assistance components of their projects. In others, only institutional contractors are used while some missions use both approaches. Missions currently have responsibility for monitoring project activities, but in reality spend most of their time in preparing the myriad of documents and correspondence for increased program and related new projects required under the existing system.

Several options are also available for management at this stage.

- (1) Require Missions to implement all projects with institutional contractors. The time required to staff and manage personal services contractors is inordinate. Also, institutional support provides for more continuity and improved management, and facilitates the development of indigenous institutional capability.
 - (2) Require Missions to appoint qualified technical personnel to serve as AID project managers in collaboration with the contractor. These people should work directly with the institutional contractor which is implementing the project.
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Their principal roles should be to expedite and facilitate project implementation and to monitor and assess progress. They should become an integral part of the project activity.

E. Evaluation

The need for continued evaluation of AID programs and projects is obvious, yet this is one of the most neglected aspects of the programming process. In fact, little has been codified about what has been learned from prior AID efforts, despite periodic attempts to carry out program review and evaluations of specific projects. The resources for such evaluations are so limited that no comprehensive evaluation of prior AID efforts has been undertaken. Furthermore, the fragmentary efforts that have occurred, have often been carried out, with nontechnical AID personnel, who are unqualified to participate in evaluation of technical projects.

There is one principal management alternative for rectifying this situation.

Institute a comprehensive review and evaluation of each country program on a regular basis. The purpose of this proposed action is to provide oversight and evaluation of progress. This review would be closely related and coordinated with the review of the ABS by the proposed Policy Review Board. It would cross check the policy content of programs and component projects, certify proper progress during project implementation, and provide the basis for modification in program design.

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Conclusions

If the above actions were taken the number of projects would be significantly reduced, as would the "in house" requirements for producing PID's, PPs, and substantially new ABSs. The ABS would increasingly be comprised of a few large, continuing projects. The conceptualization of programs and their component projects would require close collaboration with the proposed Policy Review Board, which would tend to insure the integrity of U.S. development assistance policy. Mission staff would be able to concentrate on procurement of project inputs, monitoring and evaluation.

In essence, this approach would require a more carefully prepared ABS with the overall and sectoral development programs and their component projects being explained in greater detail than is currently the case. It would, however, greatly reduce the workload by simplifying or eliminating current PID, PP, and procurement processes. Also, it would emphasize the design of cohesive country programs in contrast to the proclivity toward the design of individual projects.

Implementing the above recommendations would also result in a number of personnel being freed for reassignments according to the above recommendations. Concomitantly, it would contribute to focusing attention on the total country program, rather than on program components. AID Washington would exercise control over the policy content of the program, and would provide oversight on program progress. The missions would be responsible for managing the program.

Mr. Porter

copy

UNITED STATES GOVERNMENT

Memorandum

TO : PPC, Mr. Alexander Shakow

DATE: August 6, 1979

FROM : SDB, Raymond C. Malley *RCM*

SUBJECT: Comments on "A Draft Plan for Expansion of the A.I.D. Program with Stable or Reduced Staff Ceiling"

Much thought and work obviously went into the subject plan. It is most commendable that top management is looking so far down the road; this is not often enough done in our Agency.

However, I must say that my general impression of the plan, especially the discussion of four types of programs and Missions, is that it is too complex, and indeed unnecessary, given what I believe is the relatively modest nature of the "problem" and the time frame we have to deal with it.

I believe the problem is relatively "modest" because of the following:

- When inflation is taken into account, the proposed 1983 program level represents an important increase, but not an order-of-magnitude jump, over the level of today. This view is expressed in Issue 1 on page 8. I agree with what is said to be the "common view" of line managers "that major changes in the manner of operation are not needed" to manage the envisaged program level (whether some changes are desirable rather than "needed" is another point).
- If necessary, contract employees and companies can substitute for direct-hire staff to a greater degree than at present, and still be effectively managed by our direct hires. The total number of employees working on AID programs can be increased significantly in this manner.
- AID could be doing more replicative, larger projects, and less small innovative, pilot, activities, especially in important recipients such as the Philippines (see the recent OAS report which covers this very point), Indonesia, etc. AID/W management should be more insistent with field Missions that a swing toward a greater percentage of larger activities (still BHN-oriented of course) take place in the next years.
- We could also be involved in more multi-donor activities and joint and/or parallel financing, which tends to reduce personnel needs relative to funds committed. Almost every DAC donor does more of this than AID does - we can be more creative than heretofore in this area if we set our minds to it.



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- The "problem" does not arise until some time from now, giving Agency management time to adjust and adapt in an orderly manner within the context of our existing personnel levels.

Other points pertinent to this matter are:

- We should continue to remind project staffs that a BHN-oriented approach does not preclude infrastructure and sector-type financing.
- The "perennial problems" of lack of French speakers for our Africa Bureau, mentioned on page 2, illustrates a continuing problem making the management of any level of program more difficult than should be the case. This is that tested, experienced officers often are poorly assigned, malassigned, or not assigned where they will do the most good. It often seems that experience, interest, and language capability are considered almost detriments rather than assets - I know this is not true, it just seems that way. (An example from my recent experience - of the six French-fluent AID career officers serving in Paris when I was there (Sleeper, Helman, Stacy, DuLavey, Asselin, and myself), only Stacy is today in Africa Bureau eventhough all six had interest and capabilities in Africa. This was primarily because of lack of reasonable and timely job offers from that Bureau. One loan officer left the Agency in dismay, three of the others are employed outside the Agency's main-stream, and the other is a project officer in Asia Bureau. None are in positions requiring French!)
- AID is heavily involved in working through intermediaries now, and the extent to which we can go much further may be exaggerated.
- On page 4, is it true that our current mode of operation is Type III? It seems to me that we have all of the types now.
- On the bottom of page 5, the perennial hope that we can save lots of time by "changes in procedures" is probably vain. It is highly likely that procedures will remain reasonably complex. There are reasons for this outside our control. Only marginal improvements from time to time should be expected.
- Only briefly in the middle of page 6 are other donors mentioned - I should think that this study would cover the question of how multilateral and other bilateral donors conduct aid programs with much less direct-hire field staff than we do.
- Near the bottom of page 7, I question, given our mode of operations, whether our field staffs should consist almost completely of generalists. Technical talent will continue to be desirable on-the-spot as long as we want large numbers of our people in the field. Only if we went to a strongly centralized operation (like so many other donors) should our field staff consist primarily or completely

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of generalists.

- Re the middle of page 10, I would not exaggerate our uniqueness and "comparative advantage". Many other donors don't agree that we are all this unique. These oft-held views of ours deserve analysis and testing.

cc: PPC/PB, A. Herrick

IX. Procedural Changes that Hold Promise for Direct Hire Staff Savings

- A. A.I.D. has for some time been aware of the potential benefits of a policy to fully fund each grant and loan project at the time it is first negotiated with the recipient government (with conditions for disbursement to be used to ensure

effective and agreed use of the obligated funds), but has not had the flexibility in budget levels to fully implement such a policy or the will to implement it partially.

Savings in staff years could result through elimination of the need to renegotiate obligating documents and procurement contracts annually, justify incremental funding in the budget presentations to Washington, OMB and the Congress, and reconsider the project's relative priority at each stage of several annual budget cycles.

A.I.D. program managers proposed \$500 million for new projects in 1981 and \$1.2 billion for continuing projects (including some that will, by their nature, always require annual funding). The following amounts would be needed in 1981, in addition to the \$1.7 billion requested for new and continuing projects, to fund the estimated remaining costs of projects begun in 1981 and earlier years:

<u>Initial Year of the Project</u>	<u>\$ millions</u>
1978 and prior years	261
1979	249
1980	369
1981	291
Various (DSB & PDC projects)	<u>230</u>
Total	1400

Even if A.I.D. eliminated all new projects from the 1981 budget the funds saved would be insufficient to fully fund all projects already in the portfolio. However, program managers will be instructed to reduce the number of proposed new projects in 1980 and 1981 in order to free up funds to complete some ongoing projects. By 1982 the "mortgaging" of funds for projects in the portfolio can be substantially reduced and new budget will be available for programs carried out by intermediaries and larger country projects.

B. ~~The A.I.D. Administrator will direct that steps be taken~~ ^{take} to implement the program modifications and the additional

changes listed below beginning in 1980. ^{Temporary staff reductions} ~~Accompanying~~ ^{will help force compliance with these and other changes. Fin} staff reductions will ~~follow the changes~~ ^{not be completed} until 1983 or 1984.

1. An increased proportion of contracting and other procurement steps will be undertaken by the recipient government instead of A.I.D. itself. Direct A.I.D. involvement will require approval on an exception basis.
2. Supervision and management of budget allocations will be decentralized.
3. Technical support and policy functions in Washington will be consolidated.
4. OMB circulars calling for use of contractors when such use is cost effective will be vigorously applied. Functions that are potentially more cost effective under contract include: data management, fiscal audit, voucher examination and travel arrangements.

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July 3, 1979

Jul 5 2 20 PM '79

EXECUTIVE SECRETARIAT
MEMORANDUM

TO: Mr. Robert Nooter, A/AID, Acting
FROM: *Harlan H. Hobgood*
Harlan H. Hobgood, DS/RAD
SUBJECT: FY 1983 AID Program Size Study
REF: Ehrlich, Shakow, Nooter correspondence
(June 4 and 12, 1979)

This is an unsolicited comment on the Ehrlich, Shakow, Nooter memos which were recently copied to senior staff of the DSB.

There are several issues which I would like to raise with you about the approach implicit or overtly stated in this correspondence. In each case, I have suggestions for your consideration.

A. Agency Decentralization

The strength of the A.I.D. approach has been the country mission. Unlike the IBRD and the other multilaterals, it has provided the glue of continuity in LDC/donor relations. Where other donors' approaches emphasize the design, authorization and, to some extent, the evaluation steps in the process, the country mission provides an essential capacity to implement programs - the critical middle period in the development process that is most often neglected. Most important, it is the resident mission which aids in translating this entire process into LDC institutional development which can outlast the presence of the foreign technical advisors and the external funding.

Recently, we reasserted all this in our policy for greater decentralization. It is far too early to evaluate the results of that policy since it has not really been fully implemented. Some, I fear, are already using devices at the center to moderate or eliminate this policy intent. To back away from it now by turning to the "World Bank Model" of operation or to "program" or "sector lending" as field personnel-savings devices would be most unfortunate for our mandate. The evidence is increasingly clear that the Bank approach seldom

reaches the really poor. To do so requires country specific knowledge of institutions and field-wise implementation action with host country institutions to keep the programs "on-target" and to build that lasting LDC capacity. We need more of this, not less. We also need more field decision-making freedom and flexibility, not less, in order to gain even greater LDC participation and to make those in-course project and program adjustments necessary to establish full LDC ownership.

B. Central Technical Support

We have done an inadequate job of looking for ways to streamline the central support system for a decentralized Agency. We announced decentralization, gave some greater project approval authority to the field, but we then kept almost everything else the same at the center. The center needs to be reorganized for servicing the periphery; the old central control mentality needs to be sharply altered and the organization similarly overhauled. Here, I would argue, are the greatest opportunities for making substantial personnel savings without abandoning our critical field capacity to carry out the "mandate."

I strongly recommend that we rethink the Agency's central organization:

1. To consolidate all technical support capacity in a single support bureau with only resource programming and project review and authorization services done by the fiscal managers/desk officers in smaller, more efficient regional support operations.

2. To simplify central administrative processes based on a genuinely decentralized mode of operations that adopts a rigorous system of management by exception at the center and greater flexibility in externalizing our currently personnel-intensive administrative-support machine.

In regard to the first point, we are continuing to labor under a burdensome and duplicative organization of our limited technical-support capacity that may have suited an agency of 15,000 people but does not suit an agency

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of our current size. We should eliminate the separation of technical policy work (PPC) from central technical field service cum research and development applications (DSB and Regional Bureaus). We need to consolidate - not fragment further. Moreover, we need to reorganize our technical division of labor in fewer "specialties" and ask Congress to restate the old sectoralized appropriation accounts in the FAA to fit this more rational scheme. (If you are interested, I could supply more detailed suggestions in this regard). I would argue that such a reorganization to equip the center (AID/W) to serve the periphery (field missions) should be based on several key assumptions that could make central personnel economies possible and a new mode of operations workable:

a. Program development should be tied to knowledgeable central technical service

The central offices would utilize the cooperative agreement applied research and consulting model developed in the Office of Rural Development and Development Administration (DS/RAD) to mobilize external capacities to build our knowledge for doing development work and for delivering services to field missions. Thus, reliance on Direct-Hire personnel and less-than fully qualified IQCs, PVOs or Peace Corps Volunteers, could be reduced, not increased. Resources would be available globally for mobilization where needed. Brokerage would be a central service, responsive to substantive field requirements as identified and requested by the field mission technical staffs. These services would be carefully drawn to meet country specific needs for language skills, cultural knowledge, and appropriate technological requirements.

Within the same central units of technical resource management, policy relevant research would be part and parcel of the on-going tasks of strategy development research, project design services, evaluations, and implementation assistance. Policy issues would be raised by the same staffs doing the actual servicing and brokering of services to meet field Mission needs. In DS/RAD, I think that we are proving that this model can work.

In performing our tasks in this matter, the imaginative use of cooperating institution staffs and university based IPAs would be an important part of handling increased resources without increasing Direct-

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Hire professionals, both in Washington and in the field. Long-term support relationships from these central offices, with their cooperating institutions, could also reduce the need for some technical Direct-Hires and most Personal Service Contractors in the Missions while still providing institutional continuity in the subject matters covered by the Cooperative Agreements.

b. The high cost of inter-bureau coordination would be greatly reduced.

Perhaps as much as 20% of Washington staff time is now spent on coordination processes between and among central technical offices (PPC and DSB) and Regional Bureau technical offices in each field. Although coordination activities between the proposed central offices would clearly be required, the current investment in "coordination" could be reduced by a significant factor.

In regard to the second point above the list of possible actions to reduce personnel in the administrative support machinery - and make it more flexible and responsive - is long and perhaps a bit tedious. The Shakow memo mentions some possibilities - others could include:

- a. Eliminate all positive reporting systems not legally mandatory and adopt exception reporting procedures (e.g. eliminate positive time and attendance reports and certain positive fiscal reports);
- b. Decentralize travel authorization and eliminate the entire central A.I.D. travel bureaucracy;
- c. Use Foreign Service Officers on rotation for more personnel management functions - reduce the career PM staff;
- d. Decentralize procurement authority for a wide-range of minor, routine necessities;
- e. Simplify and decentralize all vouchering systems, perform only post-audits wherever possible, and

-the list could continue.

In some cases to simplify and make our personnel more efficient capital investments are needed - in modern communication and word/data processing terminals

appropriate to a twentieth century Agency trying to do more with fewer people yet at a high quality of output.

The purpose of this memorandum has been to argue that it is urgent that you consider other approaches than the "World Bank" model or the old, top-down "program" or "sector" loan approaches.

We can do more with fewer direct-hire people, if we must. But we can not do it nearly right by starting our reduction in the field where the "BHN" type of skills must be present to work with LDC institutions to assure the delivery of goods and services to the poor, and to work with the poor to assure that their ownership of and participation in the development process is as complete and lasting as possible.

I urge that you reconsider the orientation of your study to take these suggestions into account.

cc: IDCA, Mr. Ehrlich
H, Mr. Bennet
AA/PPC, Mr. Shakow
AA/DS, Mr. Levin
DAA/DS/FN, Mr. Babb

July 30, 1979

MEMORANDUM FOR MR. THOMAS EHRLICH
IDCA/PO

FROM: Curt Farrar *CF*
SUBJECT: Draft Plan for the Expansion of the
A.I.D. Program

I think Allison's paper is excellent. I have a few comments, attached, which I hope can help carry the process forward.

Attachment: a/s

cc: Doug Bennet
Bob Nooter
 Alex Shakow
Allison Herrick
Leah Wortham
Carol Lancaster

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COMMENTS ON THE DRAFT PLAN FOR THE EXPANSION OF THE
A.I.D. PROGRAM

The draft plan contains a sound overall approach to the problem addressed. There are, however, some major problems which are not faced, or are under-emphasized. As it develops further, I think the plan needs to deal directly with these issues, and make adjustments as required.

1. A substantial share of the illustrative reduction in personnel depends on changing Type II programs into Type I, and Type III into Type II. These shifts are subject to U.S. control, provided that we can make the political and strategy adjustments involved. This needs to be tested in hard terms very soon (i.e., by identifying the countries and working through the development economics and the foreign policy considerations involved) if the process is to begin in FY 1981.
2. An even larger share of the reduction depends on changing Type III programs into Type IV, some 17 by FY 1985. These shifts depend not only on the United States but also on progress in the host country itself, i.e., in ability to mount a sectoral program meeting our technical and human needs criteria. It is probably unrealistic to assume that very many countries will turn from the Indonesia type into the Sri Lanka type in such a short period, and there may be some backsliding. It would be a mistake, therefore, to assume that this kind of massive shift can be made. Moreover, we should take into account that U.S. criteria for judgement of country performance may also change in future years, as they have in the recent past, raising some doubt that the Type IV approach can be maintained consistently over a sufficient period of time for it to work effectively. Turning sector assistance on and off because of changes in U.S. expectations could be damaging to the effectiveness of the program, and to our relations with the countries concerned.

3. Issue 7 identifies special interest matters (such as Women in Development) as suffering from the proposed shift in policy, except to the extent that they can be accommodated by the efforts of intermediaries. This underestimates the problem. Major growing program areas such as energy and contributing to scientific and technical capacity may also suffer unless they replace other sectors, or exceptions are made by adding personnel with broad skills in these fields to Missions. Education, the weakest of the existing concentration areas, is also likely to suffer in relation to agriculture and population/health, which will be the almost universal choices in two-sector countries. Selected Development Activities of all kinds will suffer because they do not lend themselves to broad sectoral approaches, as in Type IV countries, and do require special technical support in the Missions in many cases.

4. The discussion of technical personnel in the field is somewhat misleading. There are virtually no veterinarians or tropical disease specialists in the field at present. There are agronomists, but along with the agricultural economists, these are people who play the agricultural generalist role. The paper should say that the policy of meeting specialized technical needs from Washington direct hire staff or through contractors or grantees will continue. The proposed shift in technical personnel is actually a reduction in the number of project managers with technical expertise, reflecting a decline in the number of projects, and an increase in the number of sectoral planners with technical expertise. The latter has been the rarest bird in the foreign aid business ever since I have been in it. If we want to increase the number of them, we need to make a major effort to do so and even then, many of those identified and trained will probably move quickly on to positions of higher and more general responsibility, still leaving a gap.

5. There seems to be no reason for confining our approach to Type I countries to the intermediary mode using primarily PVOs. If one or two large projects were appropriate, that format might be adopted

in specific cases. In general, we should be quite flexible about the handling of program in countries where no significant field staff is planned.

6. If the approach is adopted, it will affect the relative numbers and kinds of people in Washington and the field. Its implications should be spelled out and then taken into account in the process, now going on, of identifying the Washington positions that are to be filled regularly with foreign service officers. I believe the deadline for this exercise is October 1.

Curtis Farrar
IDCA/PO

7/30/79

T, Put in "Black Book"

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

PLANNING OFFICE

WASHINGTON, D C. 20523

August 7, 1979

RECEIVED SECRETARY
12 29 PM '79

Nooter log

MEMORANDUM

TO: IDCA/PO, Mr. Thomas Ehrlich
FROM: IDCA/PO, Curtis Farrar
SUBJECT: Another thought on the plan for the Expansion of the A.I.D. Program

Bob Nooter's initial response to Allison's draft, which I have just seen, reminds me of an additional point I would like to make: we need to be careful in making further reductions in A.I.D. personnel totals not to provoke a relapse of the declining agency syndrome.

The symptoms of this syndrome, all present in A.I.D. in recent years, are inability to recruit new and needed talent, loss of good young and mid-career staff because of lack of promotion opportunities, and a tendency for overall staff in some fields, not only those considered to be in surplus, to decline in average quality while increasing in average age. The result is a lack of drive, initiative and ambition which may take years to replace, and inflexibility in the range of skills available because of difficulty in recruiting new talent, particularly in the middle and higher grades.

On the one hand, stopping the decline in personnel levels does not assure overcoming the symptoms; it merely offers an opportunity to do so. On the other hand, some further reduction does not necessarily mean that the symptoms will continue, provided that the reduction is not so large as to prevent placing people in appropriate jobs (as happens most starkly in a RIF) or to restrict opportunities for promotion and new recruitment substantially.

I don't know what rate of staff reduction by A.I.D. is compatible with an effective reinvigoration and skill expansion. But any plan should be carefully analyzed from that point of view before we adopt it.

0069265

cc: A/AID, Mr. Bennet
Mr. Nooter ✓
AA/PPC, Mr. Shakow
PPC/PB, Ms. Herrick
IDCA/PO, Ms. Wortham
Ms. Lancaster

July 17, 1979

MEMORANDUM FOR IDCA, MR. THOMAS EHRLICH

SUBJECT: Expansion of the AID Program with Stable or Reduced Staff Ceilings

REFERENCE: Allison Herrick's Undated Draft Plan

After reading Allison Herrick's uncleared draft plan for handling an expanded AID program with reduced staffing, I feel like the fellow who shot himself in the foot. The plan has a great deal of appeal since it purports to carry out our program objectives with reduced staffing, but I disagree with most of the suggestions in it as being either impractical or detrimental to the program.

It is unrealistic to expect that we can carry out essentially the same kind of program with smaller field staffs. We have experimented with this over the years in numerous countries, and have found that either we have to run a more simplistic and one-dimensional program or we have to increase the staff. Cases that come to mind are Uruguay, Sri Lanka, Jordan, Portugal, and some of the Southern African countries. We are able to move resources with a small number of people, but are not able to do a program with significant development impact on that basis.

Also, in most countries a desirable program mix includes a range of smaller, medium size, and larger projects. Incremental increases of funds can be managed with disproportionately less people as we increase program size. However, the smaller elements of the program are usually an important part of the total mix.

Certainly I agree with Allison that we should go as far as we can in using intermediaries to carry out our programs. However, there is a limit to how far we can go with this. We have expanded the role of PVOs in recent years, and while I have pressed our staff not to overprogram PVO activities, I am also aware that PVOs need some programming assistance and supervision.

THU

In regard to AID/W staff, we have just gone through an extensive exercise under Governor Gilligan of trying to reduce our Washington ceilings. In my view, further reductions will lead to loss of program substance. Much of the new, innovative work which AID is involved in such as energy, women in development, etc., involve Washington staff to get started and to provide encouragement to field missions. Cutbacks in Washington staff will touch disproportionately on these new initiatives, some of which may well be among the more important things which AID will be doing in future years.

More specifically, I totally disagree with a minimum level on project size. Imagine our field staffs telling a recipient country that we must reject an otherwise excellent project because it does not cost enough!

Further, I disagree with an arbitrary limit of two sectors for any country. This would mean that in a country like India, where most of our funds would be programmed in the major sectors (agriculture and health), we would be constrained from working in, say, energy and educational satellite technology, even though we may have something unique to offer in these fields.

I also disagree with full funding at the time of initial obligation for all projects. First, not all technical assistance projects should be fully funded at the outset, since many will undergo significant revision during implementation. Next, full funding for all projects will greatly reduce our ability to cope with unexpected changes in aid levels in any one year. And third, full funding will lead to an expanded pipeline which may be difficult to defend.

The other aspect of the staff reduction which Allison makes sound so easy is the adverse impact on the organization from an overall personnel viewpoint. One of AID's problems over the past ten years has been the continuous shrinkage in staff levels. This has reduced our ability to hire and promote, thus reducing the opportunity to reinvigorate the organization and to reward the outstanding performers. We are sadly lacking in adequate levels of agriculturalists and other specialists already. A further downward drift in personnel levels will restrain our ability to employ the kinds and numbers of people which we need to strengthen the organization. Without competent technical staff who feel they have opportunities for advancement, AID will become increasingly moribund over the years.

My own judgment is that, based on current program levels and staff experience, we can handle the higher FY 1981 level with present staff without any program changes, for reasons which we have discussed before. The more difficult judgment is whether we can handle the increased levels in 1983 and in 1984 with the same level of staff. As a seat-of-the-pants guess, my estimate is that we can handle those levels with a 10 percent staff increase, given our ability to move incremental increases with disproportionately smaller numbers of people. The analysis which

We need to do this summer should be to explore closely with our line managers whether we can find ways to handle these increased funds without that 10 percent increase which appears on the surface to be necessary. I personally am not prepared to make a judgment on this without further consultation with the staff, but would expect to be able to do so and to organize our opinions on this in time for the OMB review.

In summary, I believe that Allison's draft is misleading and potentially harmful in promising something which we could not carry out without an adverse impact on the program.

~~7/17~~ R. H. N.

Robert H. Nooter
Acting Administrator

cc: H, Mr. Douglas Bennet
AA/PPC, Mr. Alex Shakow
PPC/PB, Ms. Allison Herrick

A/AID:RHNooter:gck:7/17/79

Joseph Watkins, SER/CM

Regarding p.g. (#3) ... Contracts may cost more... Based on a study done for DA/AID believe conclusion was somewhat different. Perhaps FM should be asked to take another look if we make this statement. Regarding the theme of placing more responsibility on the Host Country for monitoring, a recent AG study indicates this has not worked well to date. Not likely this will change in the immediate future.

Provided by phone

July 30, 1979

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6/20/70
SER/MP

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SER/MD, James L. Thompson . Yes, James L. Thompson

Doing More With Less

AA/SER, D. G. MacDonald

I share with many in AID a concern that the draft proposal to do more with fewer people makes assumptions from an undefined resource base - that is, the question of how our resources today fit or do not fit our program now and what has already been done in the economy directions proposed (and not for the first time) need to be realistically examined, including the reduction of levels of staff of various kinds, and shifting to other means to get work done. We cannot, I believe, simply assume that a significant cut of overseas direct-hire positions is practicable any longer if the program remains steady or increases.

While there is truth in the belief that almost anyone can always achieve more, the AID classic approach is reminiscent of the fiscal policy established by Churchill as Chancellor of the Exchequer in the 1920's. He stated that military budgets would be based upon the planning assumption that war would not occur for ten years, with a movable base advancing the whole assumption each year. As I recall, the assumption was still in effect in the thirties, just before war started. AID has similarly assumed that it can cut support people any time it wishes to do so, from any base. We did this in AID/W, and effectively eliminated AID/W property inventories through one cut of staff in 1972 with centralization, and others up to 1978. Now we are in trouble with Congress because of non-compliance and are putting necessary direct hire slots back to keep the books straight.

Missions have similar situations, right now. Overseas, the many missions which SER/MD staff have visited in the past year are desperate because of reduced staff to do work still demanded by the program. Vehicles don't run because we no longer have our competent shops or supervision. Property records are often poor or non-existent, contrary to statute. Ability to even prepare legible purchase orders is now lacking in some missions, as GAO has noted. In most places we have one AID American administrative manager, who must work competently with up to 23 of AID's 33 handbooks to ensure proper mission support and adequate performance. He now typically has few locals, and those are largely low in competence, as a career foreign national force has to a great degree disappeared. The new American Ambassador in one South American AID mission has observed that a local could probably be the AID Executive Officer, without reference to the skills required, and statutory demands for an American officer to do certain things, and without suggesting that his own Administrative Officer position, with far less complexity of responsibility, could be likewise filled. So goes the illusion around the world.

Realities:

- U.S. Direct Hire Full-Time overseas strength has increased some 15% since 1976. But, at the same time, part-time employment has risen by 35%, without ceiling constraint. Effective 10/1/80, OMB Bulletin 79-11 will impose a ceiling on part-time employment for the first time. Under this limitation, if today's NON-FTEPP overseas staff of 465 work 32 hours a week each, 372 new ceilings will be required within AID's existing overall limitation.
- Foreign national full-time overseas employment has remained steady since 1975. But, reported foreign national contract employment has risen by 300%, and now equals direct hire numbers. Unreported are possibly thousands, including those under end product service contracts and under JAO and employee association contracts, in what were once AID direct-hire functions and are still AID financed support activities.
- Of some 2,000 remaining direct-hire foreign nationals, a large number relate to executive, program and project Americans. The 1980 ABS calls for 922 locals in this category.
- The world's AID Controllers employ about 430 locals, Auditors account for some more. Both are relatively irreducible numbers as long as we do business the way we do.
- There is some core direct hire number necessary for administrative support. We cannot operate a mail and communications distribution system, for example, and certain other functions through contracts. However, the 1978-80 ABS already proposes annual cuts in support locals of 12% each year.
- State has, essentially, no more employment ceiling to give us, even if JAO support works and can be expanded on AID's behalf.

Conclusions:

- We can undoubtedly do some more with what we have.
- We need to streamline programs and thin out the ones with low impact, high overhead.
- AID ought to change its way of doing business, simplifying and reducing volumes of procedures and rules.
- Well stated program contracts are the way to reduce direct hire and operating expense support.
- Contracts for some more logistic support are feasible. SER/MO is working on this aspect now.
- We cannot depend on State operations to either significantly expand support services, or to save AID ceiling if they do. If they do, OE costs per unit of service will also rise, and not decrease, and quality and levels of service may decrease still further.

- =- AID must be very circumspect about support staff reduction possibilities for the future.
- It is not a cut of staff in Washington which will eliminate "procedural bottlenecks characteristic of current practices". This is a contradiction in terms and without change in procedures themselves, a cut might even further slow down the program process. Past cuts of communications staff have already had an adverse effect which we are trying to correct.

SER/MO:JLThompson:saf:7/30/79

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Alexander Shakow, DA/AID (Acting)

DATE: JUN 18 1979

THRU: M. Douglas Stafford, FM ^{MDC}

FROM : Rob L. Berrett, FM/BUD *R Berrett*

SUBJECT: Personnel

I feel compelled to register a - seemingly very small - minority opinion.

The basic premise of the current personnel exercise is that AID indeed can implement a sharply expanded program with a reduced work force. I would challenge this flat assumption.

Apparently few others share my concern on this point. I was genuinely surprised at the lack of opposition to the notion during the last Executive Staff meeting. Africa Bureau Mission Directors were more cautious, but still generally indicated their approval. I can't help but wonder how many of these people affirm capability to handle a doubled program by 1983 with current staff levels (as I would) because they are certain (as I am) that the probability of achieving a program of this magnitude is nil?

Even if the Agency can implement a program twofold larger, should it? And if it does, what will be the added cost in terms of higher risk, reduced efficiency, negative political fallout from higher pipeline and more failures; and when will these resultant costs begin to show?

Expanding programs with no increase of personnel has been a familiar refrain in recent years. Since 1976, the DA level has gone up over 70%, with a constant staff. Was the Agency so overstuffed and/or so inefficient back then, or is our management in the field now stretched perilously thin - as I firmly believe?

Who can state just what losses the Agency is already sustaining as a result of inadequate or insufficient field management? How much more economical and effective would our assistance be if time and talent existed to ensure the best possible project designs, close monitoring and prompt remedial action when trouble is foreseen, more careful screening of contractors and tougher negotiations, better



coordination with the cooperating government and other donors, etc. etc? Perhaps my concern then is not so much that the Agency can launch a larger program, but that it will - and the costs will mount.

One hears the argument that a prerequisite to an expanded program is a solid case that it can be digested within present personnel ceilings. Granted - but again I ask whether this should be done. To do so not only immediately forecloses the possibility of added personnel - which no one denies are needed now (Explain this in the context of assurances that a substantially greater program can still be handled!) but also raises the specter of a cut in the event the program is not expanded.

As responsible managers are we fully prepared to engineer a substantially larger program and incur the additional costs and risks? Phrased differently, to what extent do we have at least a concomitant responsibility to communicate clearly to IDCA, OMB, the Administration, and Congress the trade-offs involved? Behind this question is my conviction concerning the imperative to register the fact that there is indeed a limit - and, in the present overall context, we are very close to being there!

The main thrust of the current exercise - the latest of a series - is focused on programmatic efficiencies in the field. This is surely important, although one might question just how much slack still remains, but the larger, potentially more fruitful area receives short shift - the proper placement and use of all the Agency's ceilings. Foremost, this translates into the AID/W vs overseas issue, and unpalatable as it presently seems to be in most circles, at some point there simply must be recognition of the imperative to transfer more staff to the field - especially if/as program levels increase. (This does not hold of course if the Agency is prepared to sacrifice its BHN character and redirect its efforts to wholesaling assistance.) Certainly, AID/W can handle a much expanded program. And perhaps this would be a very good thing since it might tend to curb somewhat the time they have to conjure up additional administrative burdens to levy on beleaguered field staffs.

Doubtless many operational adjustments and organizational realignments are needed now, and would significantly enhance the Agency's overall efficiency. However, since the indicated purpose of this review is to make the case for an expanded program, I see little prospect hard issues will be dealt with or any substantive decisions forthcoming. Actions

do not normally flow until forced - a point the Agency has not yet reached - which leaves us to the vagaries of the "invisible hand." I think this regrettable.

Can the Agency afford to preserve the sacrosanctity of certain organizational entities which happen to have their own constituencies while constantly stretching thinner and thinner the troops in the field? And can we continue to pursue the multitude of interests peripheral to the Agency's main business of developmental assistance? I submit that we must not.

In sum, what I think I'm trying to communicate is a deep concern over the continuing trend of expanding programs - together the parallel growth of administrative overburden - with no increase in implementation workforces in the field. The Agency surely can handle a program larger than the present one, but a price attaches:

- The character and effectiveness of the assistance.
- The cost of its implementation.
- Organizational goals.
- Increased risk

etc., etc.

I believe this should be carefully considered, and communicated to those concerned.

cc: Mr. Robert H. Nooter, A/AID (Acting)

DRAFT

MEMORANDUM

TO: AA/PPC, Mr. Alexander Shakow
FROM AA/SER, D. G. MacDonald
SUBJECT: A.I.D. Program Size Study

We have reviewed the draft memoranda in which you comment upon and describe a plan of action for responding to the concerns raised by Mr. Ehrlich in a memorandum to the Acting A/AID regarding the projected size A.I.D. program and our ability to manage a larger level of program resources without an increase in staffing and, more likely with a reduction in the staffing levels currently authorized. We agree that a meaningful response to these concerns will require special focus over the ensuing weeks and that several of the areas identified for such a focus are appropriate. We do wonder, however, whether a comprehensive examination of them would be possible in the time frame set forth. The nature of the problem would seem to suggest that a comprehensive response to the question may have to be provided over a longer period -- phasing the responses to initially cover those things which can be done immediately to reduce direct-hire staffing requirements and reporting on others as the various analysis/assessments are completed.

We are pleased to note the paper set aside a reorganization of the Agency as the primary means for accomplishing the objective. While we recognize that any major changes in the way the Agency does its business is certain to have implications on the way it is organized, it is nonetheless reassuring that a reorganization is not being proposed at the outset as a "cure all". As you know, the Agency has experimented with various organizational arrangements for carrying out the U.S. economic assistance

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program. However, as this Bureau commented during the most recent major reorganization, we need to be sure that the current structure is "broken" before we attempt to fix it, and to avoid at all cost change for the sake of change.

A second central point is that we hope the effort will not result in attempts to "squeeze more blood from the old turnip". Over the last several years, managers throughout the Agency have been forced to take on additional responsibilities, disproportionately to the levels of staff authorized. We believe that the Agency has now reached the point where it will not be possible to do more with fewer staff without making fundamental change in the way we conduct our primary business, the planning, development, and implementation of our programs.

Other general observations are as follows:

First, Congressional consultations should begin early-on if we are considering moving toward a general posture of austere staffing in Washington as well as overseas, particularly if in our overseas posts we are considering the World Bank model. An overriding factor in developing a response to Mr. Ehrlich's concerns is the extent to which the Congress is willing to unshackle A.I.D. from the demands it makes on us and to curtail its labor intensive involvement in everything the Agency does. Also, we need to know whether the Congress would be willing to give us the relief needed in the operating expense budget, including lifting the limitation on AID/W expenditures. Both factors argue for Congressional consultations beginning early-on rather than limiting such consultations only to instances when "radical changes are proposed". More to the point, with Congressional understanding and

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agreement, we could possibly begin in a relatively short time-frame to contract for a number of functions currently performed by direct-hire staff. OMB Circular A-76 offers us this opportunity in certain functional areas and we will soon be discussing several "candidates" with the appropriate senior staff. I would predict that the cost would be higher in comparison with the cost of existing methods of operations which brings us back to the operating expense budget problem.

Secondly, I have become increasingly concerned that in our zeal to assure that sufficient staff resources are deployed to those functions adjudged to be on the front line of development, (e.g., field staff, Geographic Bureaus, some Central Staff offices, etc.) there is a natural tendency to ignore the myraid "administrative" mandates to which the Agency is also obliged to respond. While I support the widely held view that staffing associated with our primary mission, e.g., development, should be highest on our list of claims, we all should be mindful that frequently compliance to the "administrative" mandates is not optional and adequate staff resources must therefore be assured. Congressional interest in Agency's administrative matters remains consistently high. Involved is the provision of a wide array of management, programmatic and operational services and resources without which AID's line managers here and abroad could not carry out AID's business. Also involved is, control on the use of those services and resources for which the AID Administrator is held fully accountable by the Congress and the public. Unless adequate attention is routinely given to these areas, AID senior staff finds itself in a position with the tail wagging the dog as we attempt to explain administrative neglects on the Hill. Our program, in the final analysis, is hurt by it.

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Thirdly, I believe there is considerable merit in drawing upon our historical experiences for answers to aspects of the problem. We know, for example, that centralization of the program and management services into a single organization in the early seventies resulted in large reductions in the number of staff resources devoted throughout the Agency to these functions under the decentralized arrangement. A total savings of _____ was achieved. Thus, as a general proposition, centralization of program and management services accomplished the goal of achieving substantial staff savings and should be continued. Your review might look at the areas in which duplicative staff have been deployed to the Bureaus over the last several years to assure that these arrangements are cost effective. I have the impression that considerable proliferation has occurred with our technical staff, for example, which in some cases is clearly appropriate and necessary, but in others, fits the category of nice things to do but are not critically important to our broad mission. A recent study of a Geographic Bureau concluded that technical staff in that environment were underutilized. Moreover, we might consider matching functions which are primarily cyclical in nature (e.g., budgeting) should probably be matched with functions which have a somewhat different demand schedule so as to make maximum use of staff time. There are myriad examples in the program areas. For example,

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Turning to the areas identified for focus in the proposed study, you should be aware that within SER, several recent initiatives bear directly upon the broad goal of demonstrating that we can manage more program resources with existing direct-hire staff. These initiatives stem from the increased agency-wide demand for SER Bureau services and the need to improve the level and quality of the services with limited allocated resources. A guiding principle for these changes is the desire to increase collective productivity through improved systems, managerial approaches, etc. Among these initiatives are:

- (1) A recent study of subsequent and restructuring the Communications and Records Management function. The primary thrust of the study was to improve the systems network, associates with the service, improve collective and individual productivity and staff morale, expand the use of available technology/methodology in order to make the service more responsive to client users. We believe these goals were met based on early comments from impacted employees.
- (2) A study of the Agency-wide System for Automatic Processing (ASAP) which has the immediate objective of identifying means, in coordination with managers, for saving both time and labor in A.I.D.'s day to day operations through the application of automation technology. Booz, Allen and Hamilton, the firm conducting the study has concluded in its preliminary report that "if A.I.D. applies automation to the fine study process (ABS, CP, PID/PP, PIO/T and C, Non-Project Assistance), there is potential for significant improvement in office productivity and efficiency. We believe this report has real potential for accomplishing the goal of doing more with fewer staff and should be taken into account in developing the Agency's response to the Ehrlich memorandum. I am attaching for your review a copy of the Booz study outline.

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(3) We've also conducted a study of the Agency's Excess Property Program which is currently managed by the SER Bureau. Again, the object was to take a critical look at improving the management of this program in relation to changing external and internal requirements with the smallest possible staff. We've just received the contractor's report on this study and will soon be in a position to decide what actions and ultimate savings will be forthcoming.

(4) Work on development of a Project Manager Handbook is now underway. When completed we anticipate measurable savings in project managers staff time as they draw on the detailed information contained in this Handbook which is currently obtained in an unsystematic, ad hoc basis.

Other examples are.....

SER/MP/THREE:GHJoe:7/25/79:29714:ejs

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memorandum

DATE:

JUN 29 1979

REPLY TO
ATTN OF:SER/MO, C. D. McMakin *CD*

SUBJECT: FY 1978 Program Increase with the same or lower staff

TO: AA/SER, D. G. MacDonald

THRU: SER/MO, James *JM* Thompson

Having recently read Alex Shakow's useful initial draft of June 12th on this subject, I am impressed that we are about to again attempt to squeeze more blood from the old turnip. While there may have been some in it once, it has long been dry. For this reason, I am providing these reactions for whatever use they may be to you.

First, I am impressed that no comprehensive systemic changes are proposed. Rather, the changes are picking at the margins -- but within the same underlying structure. Specifically:

-- Marginal Probability for Savings. All of the ideas for staff savings -- while useful -- are probably of marginal collective effect because they have been bled dry over the years. To try to trim a country program there and be more efficient here is not likely to produce a significant saving overall. When SA, new country programs and the real foreign policy difficulty of reducing the growing number of country programs are weighted together, these efforts to identify savings will likely require as much time to staff out as they will save collectively.

-- Continued Basic Structures. No suggestion is made which would really drastically effect the way we do business or how we are organized to do it. Hints exist, but without a basic mandate, will likely only further confuse (and hence increase staff time) rather than clarify. For example, the IBRD regional office model might work if we were willing to adopt a new style of assistance. But the Africa experience would suggest that regional AID offices and country staff actually delay program development and implementation unless authorities are more clearly sorted out than they have been.

In short, we have exhausted the degree to which we can modify the basic blue print of the 1961 AID apparatus without collapse of the structure. We need a new structure if we are to survive. The 1961 idea was rather deliberate in that it created staff at several levels in order to place capacity with responsibility. It was an effective but expensive idea. While we have cut and

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cut it again (and again), we still have (thinly):

-- Functional and geographic bureaus with technical personnel in AID/W;

-- Bilateral missions and occasionally regional technical staffs overseas;

-- Delegations of Authority and extensive AID/W pre-authorization review of proposed projects;

-- More labor intensive work (more social, environmental and other special analyses; better work plans; more competitive contracting; more technical assistance but less capital or program assistance; etc.), more management (more contractors, more performance monitoring and evaluation) but fewer personnel and no reduction in the pressure of external audit, congressional oversight and cognizance.

-- More demand for compliance, but substantial areas where we no longer are able to really comply with the full intent of law or regulations, giving the appearance of efficient staff levels (for example, inventory management, records management, project management, contract monitorship). Mistakes and gaps which are discovered then give rise to adverse audit findings and the conviction that more auditors are needed to discover more areas where people are in non-compliance.

One could elaborate on this, but the point is clear. We should quietly re-think some of our basic assumptions about how we organize to do our work if we are serious about our commitment to:

-- maintain quality (and stay out of trouble);

-- increase program volume (more money at least);

-- maintain present basic resource transfer mechanisms (technical assistance and institution building); and

-- maintain or reduce present staffing (recognizing that many functions are understaffed now).

One approach to this might be to design a paper model of a minimally staffed Agency imagining that we were starting from scratch. To do this, one might agree on certain initial organizational and procedural precepts and then systematically apply them to the construction of the model. The ideas and

issues contained in this model could then be discussed and decided with an overall rationale and integrity. We might even end up with some efficiencies we had not imagined possible. For example, basic precepts might include:

-- Commitment to the role of planner, coordinator and financial agent, having implications for the kind and number of staff we employ and the degree of direct involvement in each country program, but suggesting greater engagement at the planning stages with other donors and AID-financed intermediary organizations.

-- Making sharper distinctions between the several roles of Agency units, causing more specialization, implying economies of scale, more expert respective talent pools and an enhanced role for comprehensive country programming.

-- Delegation of program elements to large successful functional intermediary organizations -- or the stimulation of new and relevant ones -- enabling AID to concentrate on planning, coordination and resource allocation.

-- Generation of consortia with other donor organizations, establishing separate and capable management capacity for the larger projects initiated.

-- Refusal to engage in "retail" project management, insisting that AID offices and missions, elaborate sufficiently large (minimum sizes) scopes of work, with the result that major impact is assured and separate management capacity by the contractor/grantee guaranteed.

-- Insistence that AID missions identify areas of assistance where pilot project replication is possible and planned in the near term, funding the whole thing from the start.

-- Commitment that systematic methods will be used to assure that future policy initiatives are realistically costed before adoption, especially in terms of their workload effect at the mission level (for example, the theory of savings with host country contracting versus the reality of substantial AID involvement).

Certainly, there are other ideas. But I am confident that if we could gain agreement on these foundation stones of an "organizational philosophy" that a significantly larger portfolio could be managed with the same or fewer staff than at present. Without such a basic re-thinking, I fear we are only in for more frustration and further over-extension of our scarce human capital. This will result in further loss of performance quality.

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