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AGENCY FOR INTERNATIONAL DEVELOPMENT

POSITIVE CONTRACTING FOR AID:

Marshalling and Strengthening the Nation's Resources for International Development

President's Task Force on Foreign Assistance
Working Group on Contracting

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Chapter One

The Purpose and Scope of this Report

The device of a contract between the Government of the United States and a private or public organization can become a powerful instrument for achieving the nation's purposes in foreign assistance. Boldly conceived, sympathetically operated, properly organized and controlled, the contract can become a wide channel for sluicing the skills and strengths of a multitude of private agencies into the service of the Government in one of the most difficult operations the Government must carry on in the Decade of Development: helping the underdeveloped nations to reach the point of self-sustaining economic growth.

The United States is a mighty nation; and its strong Federal Government is, of course, only one of its sources of strength. The United States is rich in institutions: a vast wealth of private business firms, skilled in every productive and distributive enterprise; more than 2,000 universities and colleges, many of them among the finest in the world, with unparalleled experience in research and education; large numbers of well-trained and educated individuals, organized in small consulting firms and organizations offering management and technical skills of almost every type,

and many with overseas experience; a large number of private foundations, voluntary organizations and professional societies, motivated toward philanthropy, or humanitarian service, or toward advancing human progress in science, art, technology.

In the very first announcements of both the Marshall Plan and the Point Four Program, the Government stressed that these new ~~overseas~~ operations were to be more than just a Government activity. The whole nation was asked to participate, both through contracts with the Government and through continuing and expanding the large number of private projects and activities in foreign countries which business firms and non-profit organizations have been carrying on overseas for many decades. The private forerunners of Governmental economic and technical assistance overseas had already developed a long and impressive history. The new Government programs were intended to provide a new leadership and stimulus and a much larger source of financial support, but they were not intended to be an exclusively governmental performance.

In the intervening years, the conception of the Government's program as being but the spearhead of a broad national activity has grown blurred and faded. Many privately financed programs have, of course, continued; the successive Acts of Congress have repeated the call for large private participation, and the foreign assistance administrations, from TCA to FOA to ICA, have all financed contracts for work to be performed by private agencies overseas. But what we have achieved is limited and occasional

private participation rather than the large-scale marshalling of the nation's institutional resources that was foreseen and that the size and character of the problem require.

At the same time, an almost ludicrous ineptitude has fallen upon the administration and use of contracts in the economic and technical assistance programs. The contract operation in ICA has acquired a bad reputation. The agency is bitterly critical of its own methods of negotiating and administering contracts. Literally no one in ICA is pleased with the present organization and procedures - not even the staff directly responsible for making and supervising contracts. The regional directors of ICA feel shunted aside and have little control over the major contract decisions for programs in the countries of their region. The directors of country missions complain of the failure of contract provisions to meet program needs and, most of all, of the inordinate delays in getting contracts signed and personnel on the job. It now usually takes approximately twelve months to select a contractor and negotiate a contract. The time between the initial request of a country mission director for the assistance he expects from a contract and the arrival of the first of the contractor's men is often three years, and not a few cases have required four. In turn, the private and university contractors are bitter, almost savage, in their complaints about delays and about what they insist is a cold hostility in ICA toward contracts and contractors. These are symptoms of severe mal-organization and defective procedures.

The President's Task Force on Foreign Economic Assistance has asked the authors of this report to study the contract operation and recommend specific administrative structures and procedures to enable the new Agency for International Development (AID) to use the contract instrument effectively.

To be really helpful, we feel, we should do more than state a few general principles or sketch the barest outline of an administrative organization. We shall therefore try to be quite specific and reasonably detailed.

A good idea can be destroyed by poor administration. The ablest personnel can be frustrated by such things as separation of responsibility for results from control over the means to achieve the results. And yet, in so complex and subtle an activity as foreign assistance, adequate top direction must be maintained, and agency-wide standards and policies to control the contract operation must be able to provide guidance without interfering with speed and decisiveness. We do not underestimate the difficulty of our task.

This report will consider first the place of contracts in the foreign assistance program, in an effort to see more clearly the size and character of the operation that we must provide for. We shall then recommend an administrative structure for the handling of contracts both for the Washington office and the country missions. Here we shall consider also the extent to which the authority to enter into contracts should be delegated to country mission directors, as well as the possibility of enlarging the number of contracts to be entered

into by host governments themselves, with AID assistance and financing. Next, we shall recommend arrangements for marshalling and developing contractor resources, so that AID may have an adequate number of available contractors whose capacity and willingness to accept particular contract responsibilities are known. The final chapter will recommend the changes in procedures for contractor selection, contract negotiation, and the administration of executed contracts that we hope will substantially reduce delays and free the contract device to make its appropriate contribution to the AID programs.

Chapter Two

The Place of Contracts in Foreign Assistance

In the first quarter of 1961, ICA had 747 active contracts for operations in 65 countries, on which a little more than $370 million had been obligated. The number 747 is somewhat misleading, however, because it includes 288 contracts which are primarily with individuals, and the largest number of these are for interpreter services. Subtracting the contracts with individuals, which raise few of the problems with which we are concerned, the total is reduced to 459 contracts in 65 countries, with total accumulated obligations of slightly more than $360 million.

That the use of contracts is increasing is shown in data furnished by the Director of the Office of Contract Relations. That Office processed 608 "contract actions", exclusive of USOM-executed contracts and contracts for interpreter services, in fiscal year 1960; 827 in fiscal year 1961 (up 36%); and estimates a further increase of 21% to 1002 contract actions in fiscal year 1962. Although estimates are not available for 1963 or subsequent years, if this rate of increase continues, contract actions in fiscal year 1965 will be double the number processed in 1961. To meet the increased workload, the Director has requested authorization to add 15 contract managers to the 19 already employed for a new total of 34 for fiscal year 1962.

Another way to examine the probable increase in the use of contract services is to compare the number of contract employees with the number of ICA direct employees, and estimate future trends. On January 31, 1961,

5200 Americans were serving overseas in various program capacities. Of these, 2800 were ICA employees, 1800 were contract employees and 500 were technicians secured from other Government agencies. ICA employees represent 55% of the total. One ICA officer estimates that the new project funds for Tropical Africa will cause a shift in the balance between total ICA employees and direct employees so that they will be about equal in number by the end of fiscal year 1962, and that the percentage of contract employees will continue to rise in fiscal year 1963. He also estimates a considerable increase in the use of contract personnel in Latin America, where 500 additional contract teachers and technicians will be required during the next two years compared to the 100 now employed. He anticipates that the contract employee-direct employee ratio will become about 50-50 in Latin America within the next two years.

It is clear, therefore, that even under present policy the world-wide shift is toward a greater use of contract employees, and the trend is likely to accelerate. Now, obviously, the size of the operation to be anticipated will strongly influence the decisions to be made on organization and procedure. An administrative structure for a small and incidental operation is likely to be markedly different from that required for a major operation that permeates the whole of the Agency's activities.

Why Use Contracts at All?

The reasons for using contracts in the AID programs that are usually given by the ICA administrators run as follows:

1. There are severe shortages of qualified personnel for these overseas programs. Many technicians and administrators who are unwilling

to terminate or disrupt their professional careers to accept Government employment may become available for work in the program as employees of a contractor.

2. A contract can bring to the Government the resources of an entire firm or organization - top professional supervision and direction and a "Technical Team in Depth" of engineers, economists, public administration experts, or other professionals, capable of tackling the whole of a complicated set of operations from planning through complete execution, and already geared to work in harmony as an organization.

3. In some situations a private contractor may be able to initiate operations faster and place a complete team in the field more rapidly than a Government agency can recruit personnel and make them available.

4. For construction jobs in particular, the Agency may not be equipped to do the job at all and may be eager to turn to an experienced construction organization that already employs a battery of architects, designers, engineers, builders and job foremen accustomed to working together.

5. One of the major tasks of the international development program is to establish or improve the quality of educational institutions overseas, and American universities are far better experienced than the Government of the United States in the business of up-grading the performance of a faculty in research and education.

These are persuasive reasons. But we are struck by the fact that they define rather narrowly what we believe should be considered in a

much wider frame of reference. In fact, we anticipate that the stormy course of events in the underdeveloped countries during the next decade, and the changing character of the foreign assistance program itself, will compel a much larger and broader use of the contract instrument in the future than in the past. Why should this be so?

In the first place, the foregoing enumeration of reasons for using contracts already misses the central point. Contracts with business firms, universities, foundations and other organizations are not something the Agency is compelled to fall back upon because not enough people are available for direct Government employment and because contractors can usually more faster than the Government can. Contracts are important to AID because, as we stressed in opening this report, they are the channel through which the Government can marshal the mutual efforts of the whole broad spectrum of the American economy to work with the Government in cooperating with the governments and peoples of the underdeveloped countries. The very fact that the society and economy of the United States is not a centrally organized and directed monolithic structure, but is a rich pluralism of public and private institutions, public and private capital accumulations, public and private aggregates of men conducting complex operations, argues eloquently for employing a cross-section of this great pluralistic structure in the major tasks that the President has defined for the Decade of Development, instead of relying upon the Government bureaus and their personnel alone. It is the wealth of American institutional life, and not alone the money we can

afford to appropriate for foreign assistance, that constitutes the richest asset the United States can make available in the effort to help almost 70 underdeveloped countries to develop their social and economic future.

It will not be easy, of course, to devise methods for marshalling so many institutions and organizations into the service of this program and still retain firmly in Government hands the authority and capacity to guide and direct the total effort, but we are convinded it can be done, and we give specific recommendations in Chapter Three below.

A second reason for anticipating a substantial growth in the number and range of contracts to be used by AID has developed only recently. The President has recommended to the Congress a set of new concepts for the development assistance effort. Prominent in those concepts is the policy that AID will assist each cooperating government to prepare an "overall integrated development plan ... in order to avoid a piecemeal approach." Foreign assistance is to provide "long term support for development plans created by the less developed nations themselves."

Not more than a handful of the less developed countries today have the personnel or the administrative organization to prepare such development programs. Few tasks that a government can undertake are more complex and difficult to perform. Technical assistance on how to develop programs for guiding economic growth therefore becomes itself one of the major forms of assistance AID must give. Yet, there are compelling reasons why AID should not attempt to give this kind of

assistance through personnel employed directly by the Agency. Direct participation in the host country's development programing by U.S. Government personnel who are supervised and directed by the American Ambassador and the AID country mission director may involve the Government of the United States altogether too intimately in some of the most sensitive internal operations of the host government. To program economic growth means to allocate scarce resources; to choose between taxes, regulation and subsidy as instruments to achieve particular purposes; to decide whether agricultural development should be preferred over chanelling capital into industrialization - to mention only a few of the sensitive decisions that each country must make for itself. Assistance to these countries in development programing must, therefore, be given in such a way as to minimize rather than maximize the danger that the assistance and advice given will be suspected of ulterior motive, will be resented as an invasion of national independence, or will become an issue to be fought over in domestic politics. This kind of assistance can probably be better and more effectively given through contracts by AID with institutions and organizations that are equipped, or can equip themselves, to give assistance in this area. The American Ambassador and the United States Government personnel for whose activities he is responsible should certainly not seek to be prominently identified with the making of such decisions. This is a sensitive process close to the heart of national sovereignty. There are sure to be cynics and skeptics (not to mention our enemies) who will deride and

challenge the motives of the United States in giving such assistance, no matter through what channel the assistance is given, but it is the part of wisdom to give such cynics and skeptics the fewest possible handles to grab hold of.

Even a contract with a firm or foundation to provide such programing assistance, where the contract is financed by AID, will only partially separate and insulate the Government of the United States from apparently improper intervention in the programing process, but this degree of separation may make a major difference. We should emphasize that it is not alone the use of the contract device that can provide the separation to be sought; a great deal will depend on who are the parties to this contract, and on the administrative relations that are to exist between the contract personnel overseas and the American Ambassador and country mission director. We shall therefore return to these points again when we discuss these administrative arrangements below in Chapters Three and Five.

There is an even more persuasive reason, however, why the United States Government would be unwise to give technical assistance in development programing directly through U. S. Government personnel. If officers of the Government of the United States play an important part in formulating a development program for a given country, the natural tendency will be for the host government to feel, quite honestly, that the United States has already approved the development program thus jointly formulated and is therefore in a real sense "committed" to help carry it out as it

stands. The subsequent freedom of action of the United States becomes greatly curtailed. Changing circumstances may later make the United States extremely reluctant to help finance or construct particular projects or activities included in the program, but a refusal to do so would then begin to take on the appearance of bad faith. We must remember, too, that the U.S. Government economists and engineers who would be giving assistance in such development programing cannot readily transmit detailed information to Washington (for review and advice) as they work. The program that results may therefore include some projects quite far from what AID is prepared to help finance. The program must be the host government's program formulated with the assistance of foreign experts, and not the program of the United States. What this operation will be seeking primarily is to train the host government officers in the procedures and techniques of development programing. Inevitably, therefore, the United States Government cannot possibly assume that it will be happy with every development program or project planned by the overseas government merely because United States personnel have helped organize the process and train the planners.

In sum, there is every reason to anticipate that AID will want to finance contracts under which suitable private organizations in the United States may cooperate directly and intimately with host governments in the building of development programs, and in the building of administrative agencies and skilled personnel capable of making development programs. This is likely to be a substantial activity to be carried

on in many countries, and the needs of this type of contract work must be kept in mind as we consider how AID should organize itself to handle the contract operation.

A similar set of considerations will probably dictate that contracts rather than direct employment be used for giving technical assistance in the initiation and administration of Land Reform programs. The democratic alternative (or moral equivalent) to what the Communists call "Land Reform" means the distribution of agricultural lands in units of appropriate economic size to small farmers; plus making credit available to the farmers who purchase the lands for obtaining machinery, livestock, seed and fertilizer; plus the extension of technical assistance to the farmers so that they may develop sound farm plans and introduce good technology into their farming. Land Reform is not just land redistribution (as the Communists are discovering to their cost); it is the establishment of a proper relationship between the farmer and the land. AID assistance to a host government in Land Reform will, therefore, have to include advice on how, through fair and democratic means, large acreages of arable land can be acquired and made available to numbers of small farmers, as well as assistance in establishing supervised agricultural credit systems, and in training the supervisors who can help the farmer-borrower to develop a sound farm plan for his holding; as well as helping the government to locate (very often by borrowing from the United States or Multilateral Development Banks) the capital to be used as a revolving fund for such loans to small farmers. Now, the important thing to note is that the

United States technicians at work in Land Reform will never be able to achieve these complex results by serving merely as consultants or advisers. The ICA experience with pilot Land Reform programs in Guatemala and Bolivia, to cite only two examples, makes it clear that the foreign technician must be able to assume a position of responsibility within the Land Reform and Credit Agency of the host government, making decisions, drawing up procedural regulations, and even approving and disapproving some loan applications. In this kind of work, the most effective way to teach is to join in the doing with the host government officers who are learning how to do. The technicians must, therefore, be in position to undertake these highly sensitive responsibilities as working officers in a Ministry of Agriculture or in an Agricultural Credit Bank. Here again, therefore, we must seek to protect AID from the charge of treading upon sovereignty and interfering in local sensitive operations. The answer to Castroism cannot be a Land Reform operated overseas by U. S. Government personnel under the supervision of the American Ambassador. There is real hope, however, that the answer can be found in AID financing of contracts with private agencies that the host government has helped to select, whose officers will work jointly with host government officers in establishing and operating a courageous Land Reform program.

We may not need to multiply these illustrations of activities that we believe will compel a much larger and more sophisticated use of the contract instrument in the years ahead, but at least one more activity needs to be specially emphasized. In December 1958, the Council of the

Organization of American States adopted a resolution in which it pledged the assistance of OAS to efforts to improve the quality of research and teaching in Latin American universities, and to the establishment of regional universities to supplement the educational resources of individual countries. There is much to indicate that the universities of Latin America are ready to enter upon a major era of educational improvement. They already possess a great cultural base on which to build. But large resources of funds and trained teachers must be made available if the effort to formulate and execute national and regional programs of educational growth is to have a real chance to succeed. OAS wants the assistance of AID. AID will almost certainly not be able to give the kind of assistance that Latin America here invites through the few faculty men that AID can lure from their educational posts into Government employment. Technical assistance to improve the research and teaching practices of the Latin American universities can be far better provided by the universities of the United States than by AID. The function of AID should be to finance the contracts under which large numbers of the universities of the Americas can cooperate with each other in this effort to strengthen the educational facilities of Latin America. The U. S. universities are discovering that they learn as much as they teach in these cooperative programs.

Although the initiative of the OAS Council makes this opportunity particularly immediate in Latin America, parallel opportunities exist or can be developed in other regions. And assistance at the university level is not the only requirement; major programs are needed in elementary

and secondary education to prepare the students who will be equipped to benefit from university study. In this area of activity, "sensitivity" is not the major source of concern - although certainly the nations are sensitive to outside intervention in their educational policies. The compelling reason for using contracts to achieve these purposes is the fact that the universities can do far better than AID the things that need to be done.

And, finally: The deepening of the Cold War is creating a growing reluctance on the part of many governments in the underdeveloped part of the world to accept technical assistance from either the United States or the Soviet Union. The acceptance of aid tends, in the minds of some government leaders, to identify them with one or the other of the major antagonists. It is, of course, the "uncommitted" or the "neutralist" nations that reveal this attitude most clearly, but they are many, and the roles that they will choose to play will have a profound effect on the future of freedom in the world. During the last six or eight years many of these governments have been increasingly turning to the multilateral technical and economic assistance programs for the help they are growing reluctant to request from either the Soviet Bloc or the United States. If the multilateral agencies were adequately able to give the required assistance, this might not be an ominous development, although the United States would stand to lose much as a nation if it could no longer effectively play the role of the good neighbor in cooperating with less developed countries to promote their economic growth.

The fact is, however, that although several of the multilateral agencies can provide capital for economic development, there exists no adequate multilateral technical assistance program that can substitute for the bilateral program of the United States. This is not the place for a detailed analysis of the strengths and weaknesses of the "Expanded Technical Assistance Program" of the U.N. For present purposes, it may be sufficient to say that the administrative and financial structures of the U.N. program make it impossible, and probably will do so for many years to come, for the less developed nations to receive from the U.N. program alone the wide-ranging technical assistance for economic development that they require. The Expanded Technical Assistance Program of the U.N. is a complex and unwieldy administrative structure, in which nine Specialized Agencies and four Coordinating Offices struggle together without the unifying influence of a common administrative director. Further, there is at present no foreseeable way of increasing the financial size of that program substantially beyond its present scale of less than $100 million per year (for all 70 countries) without requiring the United States to contribute almost all of the increased funds. Even if the U.S. were willing to increase its contribution to the Expanded Program to such an extent, a program that is not multilaterally financed must soon cease to be multilateral in fact. The U.N. program does provide many very useful projects and activities in many places; but the free world cannot look hopefully to that program alone for the furnishing of adequate technical assistance to the underdeveloped countries.

It is the bilateral program of the United States, therefore, that must so re-structure itself as to be able to furnish, in more acceptable forms, the technical assistance that some of these nations grow increasingly reluctant to ask for but badly need. A broader use of contracts which run directly between the host government and private organizations, even though financed by AID, ~~can very materially~~ help to solve these problems.

This cooling temperature in international relations is gradually converting additional areas of activity into "sensitive areas". Public administration is a sensitive area for technical assistance in some countries; in others it is tax and tariff reform; in others it is mineral exploration and exploitation. Such insulation or separation as the contract device can provide can make feasible many activities that are becoming increasingly difficult to carry on thru persons employed directly by the Government of the United States.

These, then, are the major considerations that lead us to believe that AID will want to use the contract instrument in the future over a much larger range of activities than in the past. These considerations point also to the need for making the contract instrument a much more sophisticated operation than in the past, and one that can respond far more quickly and perceptively to the specific needs of specific programs in specific countries. The form of organization and the pattern of contract policy and procedure that AID must now decide upon and

establish must enable the Agency to deal with the large volume of contract business that the foregoing considerations suggest. If contracts are to serve the purposes of AID, the structure and the procedures must be tailored to fit these peculiarly exacting requirements.

The Disadvantages of Contracts

Contracts also have their disadvantages. The administrative recommendations we shall make, and any alternative proposals that are considered, must be tested by their ability to surmount or at least keep under control certain disadvantages that are inherent in the attempt to carry out a government program through the use of private contracts.

First is the obvious fact that each contract introduces a new party into the transaction - the contractor and his organization. In the case of a project administered directly by AID, only AID and the host government agency must come to a full understanding and accommodation. In a project administered through a contract, AID, the host government agency and the contractor must all reach this common understanding and accommodation. Ample experience shows that this is not an insuperable problem, and the new advantages introduced may more than compensate for this introduction of a third party, but the contract procedures of AID must be aware of this factor and provide for it.

A more important danger is the fact that if several major operations in a single country are to be conducted through contract, while other operations go forward directly through AID personnel, there has been

introduced a tendency toward loss of operational control. There must never be any doubt at any moment in any country as to where the final authority and responsibility for the foreign assistance program rests. It must rest in AID. The Regional Assistant Administrator, the American Ambassador, and the country mission director must be kept fully informed, must be able to anticipate dangers and head them off, must be able to change course, shift personnel, and add funds here and reduce funds there. The interposition of one or more contractor organizations (each of which constitutes an independent set of operation controls) can threaten the responsiveness of the total organizational structure to top direction and control. Here again, therefore, the provisions of every contract and the assignments of authority over the contracting process must be geared toward protecting the integrity and control of the total program of operations in each country. Free-wheeling by contractors or their employees can be just as disruptive as discordant behavior by any other officer or employee in so complex a program as foreign assistance.

A third difficulty is introduced by the fact that major differences in the salaries, allowances and perquisites between directly employed personnel and contract personnel overseas can introduce serious problems of morale and disrupt the growth of a friendly cooperation among all U. S. citizens at work on different projects in the same country. We believe this hazard has been especially poorly dealt with in the past few years.

Next, it is strange to notice how consistently the overseas employees of contractors are overlooked when arrangements are made for

orientation and training of technicians and administrators before they are sent overseas and for occasional refresher courses while in service. Certainly it is true that contractors are selected in large part because their organizations and personnel have particular skills that need to be employed in foreign assistance operations. But most of the directly employed personnel are also selected because their education and training qualify them for particular functions. And both types of personnel need additional orientation and training to fit them for work in the area of foreign assistance. The kind of work involved in assisting governments and peoples overseas to develop their natinnal economies is a new kind of challenge, as much to private organizations as it is to the U. S. Government. Skill in doing is not the same as skill in teaching. A good engineer or administrator is not necessarily equally good in giving technical assistance in engineering or administration. It is no less true for persons employed by contracts than for those employed by AID that they must be given special orientation and training, and strong technical support from headquarters, and occasional refresher courses, if the work overseas is to reach the high quality of performance that the American people and their Government have a right to expect. The very sensitiveness of this whole area of operations increases the importance that the people sent overseas shall operate at a high level of competence and perceptivity. As we outline our administrative recommendations below we shall stress, therefore, the importance of including the overseas personnel of contractors in the orientation and training programs of AID, and of permitting

contractors to finance their own orientation and training work.

It is widely believed that it costs more to do a job overseas by contract than through directly employed government personnel. A report to the Special (Senate) Committee to Study the Foreign Aid Program ("The Use of Private Contractors in Foreign Aid Programs", by Jerome Jacobson Associates, March 1957. See pages 61-64.) that looked into the subject of relative costs has questioned this presupposition. In the time available to us we have not been able to discover any collections of data that would enable us to form our own judgment in the matter. We hesitate to accept this presupposition because the usual cost computations tend to ignore the relatively high overhead costs of the U. S. Government because the allocation of these costs to particular operations overseas is so difficult to compute. The salaries of contractor employees overseas seem in most cases to be generally in line with the salaries paid U. S. Government personnel, and most of the other costs are the same for both classes of personnel. Certainly the salaries of top management and supervisory staffs in private organizations are higher than corresponding salaries in the Government, but other overhead costs of private organizations seem to be lower than those in the Government. We can only conclude here by saying that the greater cost of doing work through contracts is an assumption that has not been proven, and the reverse may be the fact. In the foreign assistance program, in any event, the necessity for using contracts to a considerable and growing extent seems to be clear because of the special considerations we have discussed above even if it were demonstrated that doing the work through a contract increases the cost.

And finally, contractors can fall flat on their faces and turn in disappointing or even miserable performances just as well as can government bureaus. Roads have been defectively constructed; incompetent personnel have been assigned to overseas tasks; institutional supervision has been inadequate in a number of projects carried out through contracts. The selection of contractors must remain an important step, to be scrupulously performed if the contract instrument is not to disappoint the Agency's hopes. The rebvant point here is that it may be more difficult for AID to take the necessary disciplinary, corrective and educational measures where the contractor's organization has been interposed between AID and the tasks the overseas personnel are performing.

We are strengthened in our belief that these inherent disadvantages in the use of contracts can be quite adequately controlled and corrected by observing the experience of another Government Agency that is also administering a novel and very complex set of program purposes. The Atomic Energy Commission determined, at the very beginning of its operations, on the basis of a careful study of its administrative and operating needs, to conduct practically all of its work through contracts with industrial concerns and academic institutions. AEC has awarded contracts to design, construct and operate its large production plants, to operate its big multi-purpose laboratories, and to carry out atomic research and development work. AEC's motive for contracting is to take full advantage of the skills and managerial experience of American industrial institutions. The Commission has said that on several occasions it has studied the relative

advantages of direct government operation when undertaking new projects, and in each case it has appeared that the project would be advanced most rapidly and efficiently by an experienced industrial or academic organization. In one of its annual reports to Congress, the AEC, in discussing its contract program, said "The unique capacity of American industry to develop new, better, and more economical ways of doing things is one of the greatest advantages our Nation has in atomic energy development."

The AEC operates through a decentralized organization. Its work is performed almost wholly within the United States, but at a number of locations far from Washington, where headquarters are maintained. The Field Managers of AEC exercise authority comparable to that of the proposed Regional Assistant Administrators of AID and of the country mission directors in the larger countries with larger programs. Policy control and program leadership is a function of the headquarters office; operation is a function of the eleven Field Operations centers. Each Field Manager enters into the contracts necessary for his work. AEC Field Managers may enter into contracts obligating up to $10 million; it is only contracts in excess of that amount that must be referred to Washington. The total annual expenditures under these contracts are approximately $2.4 billion; the capital facilities are valued at approximately $7.3 billion.

Of the 110,000 persons employed in this giant public enterprise only 6,800 are directly employed Government personnel. More than 100,000 are contractor personnel. This means that more than 90% of the people on whom AEC relies to do the work and produce the results desired are contract employees.

We have considered the experience of both AEC and of ICA and its predecessors in formulating the administrative recommendations we present in this report.

Chapter Three

The Administrative Structure in Washington and Overseas

To design an administrative structure for the contract operation, or to judge the suitability of the present and proposed designs, one must first focus sharply on (1) just what it is that AID wishes to obtain from the contract operation, and on (2) just what are the major operating steps that must be taken every time a contract is made.

What AID seeks and has a right to expect from every contract are the following:

(1) It should provide for performance of the specific services that are needed in a particular program or activity. To be fully responsive to program needs, the contract must adequately describe the scope of the work to be done, it must run for a long enough time, and it must furnish adequate funds.

(2) The contractor must be one whose record, experience and staff promise that he will be able to perform satisfactorily.

(3) The negotiation of the contract should be reasonably rapid.

(4) The terms of the contract must be reasonable to both parties, carrying no excessive cost to the Government while giving fair compensation to the contractor so that he can perform with enthusiasm.

(5) The contractor should initiate performance promptly, with competent people being recruited and cleared even as the negotiations proceed and therefore ready to report quickly after the contract is signed.

(6) The contract must be responsive to reasonable needs of administrative control by the Administrator of AID and by the director of the country mission.

For each contract, the appropriate AID officer must take the following steps:

(1) Decide to carry out a particular activity through a contract.

(2) Make a tentative determination as to the type of contract that is appropriate: fixed price; cost reimbursement; cost plus fixed fee; or a grant.

(3) Choose the contractor: by advertising for competitive bids; or obtaining comparable proposals; or making a fair and impartial decision to open negotiations with a particular contractor because AID knows, or has reason to believe, he is specially qualified to do the job it wants done.

(4) Negotiate the contract. This step is obviously immensely facilitated if standard forms of contract have been developed for frequently recurring situations, and standard provisions have been developed to cover all things required by statute to be included in contract texts whether as prohibitions or as requirements. These are the familiar "Thou shalt's and "Thou shalt not's".

(5) Sign the contract, distribute copies, and make appropriate fiscal and record notations.

(6) Administer the contract, while the contractor performs. For the contractor, this means doing what the contract requires. For AID, this means interpreting contract provisions and answering questions that arise during performance; facilitating contractor performance and helping to clear away obstacles; and seeing to it that the contractor delivers full performance. Whether the relationship between the AID officer and the contractor in thus seeing that performance is delivered should be close or remote will vary with the two major classes of AID contracts: this is discussed below, in the final section of this Chapter.

(7) When the contract is completed, evaluate the performance of the contractor, the results achieved, and the lessons learned to facilitate future contractor selection and a continuing study of the contract process.

What administrative structure will best promise to satisfy all the foregoing needs? Let us measure the present and proposed structures with these measuring-rods.

The Present Structure and How it Grew

We shall not take the space to trace this relatively recent history in detail. (The major documents that reveal the history are: Program Methods Coordination Staff Bulletin 35, first issued (by ECA) in 1949; the document known as the Stambaugh Report, issued in October 1955, and the FOA Management Study largely disagreeing with the Stambaugh Report, issued October 17, 1955; establishment of the Office of Contract Relations in 1956; ICA Regulation [illegible], issued for "Official Use Only" in October 1958; ICA Policy Directive 12, March 31, 1960; and a series of current Manual Orders and Policy Directives.)

We call attention, however, to an outstanding fact that has characterized the development of the contract operation during the last ten years. The pendulum has swung sharply, first toward extensive decentralization of contract functions to approximately 12 separate offices and units, and then, because of unhappiness over the results, the pendulum has swung to almost the other extreme, toward centralization of most of the contract operation in a central Office of Contract Relations. We are convinced that each swing of the pendulum carried too far; that neither the present administrative structure nor the arrangements that preceded it were or are reasonably adequate to the needs of the program; and that the designing of a suitable and sensible administrative structure for the contract operation of AID is not a task that need baffle the mind of man.

Within TCA and FOA, some 12 divisions or offices has authority to negotiate, enter into, and administer contracts. Neither agency (until

1956) established any mechanism or unit to develop agency-wide contract policies and standards to guide or control the many people who were making contracts. We are tempted to agree with the many who have described that stage in the history of this contract operation as "administrative chaos". No agency-wide concensus, or procedure for arriving at a concensus, then existed on such matters as the method of selecting contractors, or what were to be considered as allowable direct and overhead costs, or a formula for objectively computing the fees to be allowed contractors (and on this subject no formula has been established to this day), or the overseas allowances to be paid to contractor employees, or on the other major types of contract provisions as to which agency-wide uniformity is both desirable and feasible.

One cardinal virtue this historical period in the contract operation did possess: it was able frequently to produce a signed contract in a relatively short period of time - that is to say, whenever a Regional Director was willing to pound his desk and say to one of his subordinates, "We must have this contract signed soon; Damn the torpedoes; Full speed ahead." But the price paid for this advantage was much too high, and needlessly so. The contracts drafted in this period showed extremely poor craftsmanship. Contract terms were so ambiguous that they paved the way for frequent disallowances by FOA and ICA auditors, with subsequent legitimate complaints from the contractors that they had been led astray by the agency's own negotiators. It was impossible to conduct an effective or successful contract operation in these ways, and the resulting

criticism and impatience finally swept the agency to almost the other extreme of over-centralization, excessive insistence upon uniformity even in situations where uniformity served no useful purpose, a growing hostility toward contractors and distrust of their motives, and even a growing dislike of the entire practice of using contracts at all. This has by now developed in the minds of not a small number of ICA officers a belief that the contract is a necessary evil and is to be used only where it is unavoidable. We shall document and illustrate these strictures in Chapter Five.

We have criticized the Office of Contract Relations and other officers of ICA, and shall be even more critical in what is to come. We owe it, therefore, to the targets of our criticism to state candidly at once that we are discussing substantive and procedural issues and do not in any sense intend our statements to be taken as criticism of the competence or motives of any individuals. We are covering controversial ground, and we know that some individuals have views that differ from our own, and hold them just as strongly, We are grateful for the fact that, regardless of personal views, or of important personal interests involved, every one of the more than 80 officers in ICA, the State Department, contractor firms, and others, whom we have interviewed have been generous and unstinting in giving us their time, stating their views and experience frankly and without reservation, and making available to us all the information that might be helpful in our task. In particular, the leadership of the Office of Contract Relations has been cooperative

and helpful in the highest degree. The men who are leading the Office of Contract Relations are men of ability, of unquestioned integrity, of high devotion to the public interest, and of unusual willingness to work long hours on very difficult assignments. We appreciate warmly their frank and open approach to sharing with us their views and their problems. We are confident, also, that they expect from us candid and explicit discussion, with unhesitating criticism where we believe that to be called for.

Furthermore, it is clear to any careful observer that the Office of Contract Relations has for several years been the lightning rod that has attracted the criticism which properly should have been directed, not to that office alone, but to the kind of total administrative structure that FOA and ICA had established. Much of the delay in contract operations, for example, was due to the fact that within FOA and ICA administrators had almost totally lost sight of the distinction between line office responsibilities and staff office services. The Organization Charts and the Manual Orders do not accurately reveal the central character of the administrative structure of the FOA and the ICA. There developed within both agencies a "common law of administrative organization" which controlled and defined what each major unit in the organization actually did and had power to do, regardless of what Organization Chart and Manual Order said. In both agencies, a relatively large number of offices and divisions functioned as though each were a line office with operating responsibility and the power to say yes or no. The Regional

Directors; the heads of several of the Technical Divisions; the head of the Management Staff; the Director of Program Planning; the Office of the General Counsel; the Controller; and the heads of a few other units, actually enjoyed almost exactly coordinate status, and no one of these could direct an action to be performed by any of the others. This was almost literally administration by unanimous consent. Where all the heads of the various units involved in any particular action were in accord, action could go forward. If any one of them held strongly divergent views and refused to approve a proposed program (or, often, even a proposed letter or cable involving a relatively minor intermediate step) then no action could be taken until the differences were compromised. The head of any of these units could always take the issue to the Deputy Director for Operations; and it is both startling and true that he was the only officer, other than the Administrator, who could make a decision and direct that action go forward. Even at this stage, the head of any office not present when the decision was discussed, could re-raise the issue at a later time and compel new negotiations and a new settlement. No matter how urgent the cables from country mission directors, no officer below the Deputy Director for Operations could summon people to his office, announce that no further delay would be tolerated, listen to the opposing contentions, and then make a binding decision.

The head of each office wished naturally to conserve his reservoir of credit with the Deputy Director for Operations, and each was reluctant to run to him too frequently. Again and again, therefore, issues were

compromised in order to avoid appeal all the way to the top. The result was to put a premium on watered-down compromises and discourage any daring proposal that might evoke opposition in any quarter.

We take it that these were the considerations that prompted the Group on Organization and Administration, of the President's Task Force, to replace the organization structure of ICA with a strong line organization, in which the administrative line will run clearly from the Administrator to each Regional Assistant Administrator, to the director of the country mission, with all the other offices and units clearly functioning as servicing staff offices rather than as additional line offices lest they divide administrative responsibility and destroy the will to act.

Doubtless there is much to be said in defense of what was done, or even to modify the picture we have painted. As we see it, however, this was the pattern that prevailed, and in such an administrative environment the Office of Contract Relations was inevitably bedeviled by the same delays, the same inability to force decisions, the same absence of concensus on major policies and procedures, that troubled every other unit in the Agency. In formulating the recommendations in this report we have tried hard, therefore, to distinguish between those weaknesses in the contract operation that are a necessary consequence of the present organization for contracting, and those attributable to the organization of the Agency as a whole.

We must say one word more about the swing of the pendulum and the issue of centralization versus decentralization. The pendulum has swung

as widely as we have described because a strong "jury argument" can be made both for centralization and for decentralization. The substance of the case for centralization in one office of all or nearly all of the functions dealing with contracts is that contract drafting and negotiation is a specialized job, and the professional skills required can best be assembled and given status and recognition in a central office; that a smaller total of contract negotiators may suffice in a central office, where a larger number may be needed if, for example, the four geographic regions were each to maintain a contract staff; and that program people tend to be "soft" on contractors because they are primarily interested in getting operations going and will more readily concede points to contractors in the interest of speeding negotiations and advancing the work to be done.

The substance of the case for assigning to the major program operating offices, in Washington and overseas, most of the functions dealing with contracts is that a central contract office has an inherent tendency to drift increasingly away from program requirements and realities and toward the search for "the perfect contract" - away from concern with performing the program tasks to the best of everyone's ability and toward an over-zealous concern with protecting the Government's interests against every imaginable contingency; that a contract office should be a service agency, to fashion an appropriate instrument for solving major problems, rather than a control agency because contract negotiators are rarely if ever qualified by training or experience to make the policy and action decisions that must

be made in a complex program more than half of which will be executed through contracts - but the inherent tendency to seek the "perfect contract" destroys its capacity to work as such a service agency; and that a separate central contract office comes to attach more importance to avoiding possible questions from the General Accounting Office and the Congressional Appropriation Committees than to serving the needs of the AID program.

We suspect that both protagonists are right, within limits and qualifications; and we are convinced that if the Administrator of AID will give strong leadership to the Agency, will establish reasonably clear contract policies, and will staff the principal line and staff offices with chiefs who are capable, responsible men who know the importance of working together with reasonable harmony, AID can give itself all the advantages of reasonably uniform agency-wide contract standards as well as close identification of the contract instrument with the program whose needs it must serve.

The Proposed Washington Structure

Although we shall recommend further on in this chapter a strong program of delegating contract functions to the directors of country missions, as well as measures for enabling host governments themselves to do a great deal of the contracting with United States business firms and other organizations, it is necessary to describe first the proposed administrative organization for the Washington office.

In a nutshell, we recommend that complete responsibility be assigned to the four Regional Assistant Administrators (and, for the reasons to be stated shortly, to the Director of the Office of Development Research and Assistance) for deciding what activities are to be carried out through contracts; for determining the type of contract that is appropriate; for choosing the contractor; for negotiating, signing, and administering the contract; and for preparing the evaluation of contract performance and results called for after the contract is completed. This would assign to the heads of the major operating units all seven of the major steps we have listed above as being required for every contract.

We recommend also that there be established in the Office of Management Services a Contract Standards Division, which should be responsible for proposing the contract policies, standards and forms that are to guide the heads of the five major operating units just mentioned. The Contract Standards Division should have three principle branches: (1) a Contract Standards Branch; (2) a Contract Negotiation Branch; (3) and a Contract Reports and Clearing House Branch.

Most of the reasons for these recommendations are apparent from what we have already said; some amplification of how this structure is intended to function may, however, be needed.

(a) The Regional Offices

We propose that there be appointed in each of the four Regions a Contract Officer to supervise and direct all steps in the contract operation for which the Regional Assistant Administrator is responsible. He will need a staff of Contract Negotiators the number to be determined

by the work load. We anticipate the need for a minimum of two or three Contract Negotiators in each Region, and a similar number in the Office of Development Research and Assistance. We do not anticipate that the total number of Contract Negotiators needed by AID (in the four Regions; in the Office of Development Research and Assistance; and in the Contract Negotiation Branch of the Contract Standards Division) need exceed the number of Contract Negotiators that would be required by a central Office of Contract Relations, or the number (thirty-four) that the Director of the Office of Contract Relations has requested for the anticipated work load of that office. The negotiators need not specialize by type of contract; each negotiator should be able to negotiate any contract, whether with a university or a commercial firm. The simplification of contract forms that can make this possible we discuss in Chapter Five.

Assignment of these contract functions to the five major Washington operating offices will enable them to use the contract instrument as one tool among other tools, and will equip them to carry forward, under their own direct control, either by contract or direct employment, all of the program activities to be conducted in each country in the Region as well as the regional activities that will serve more than one country. In this structure, the people responsible for planning programs will also be responsible for choosing the instrument for executing them and for controlling the use of those instruments. Attempts to make sharp separations between planning and execution, or between selecting the contractor and negotiating the contract, or between negotiating the contract and directing its administration, or between directing the administration of a contract and determining whether the contract should be extended or terminated -- all such sharp separations, particularly where one function

is assigned to one operating unit and the other to a different unit, are surgical dismemberments of a living organism, and few organisms survive such surgery. We think it is of the greatest importance that authority go with responsibility, and that the man to whom major functions are assigned should be given the complete kit of the tools he will need to perform those functions. This is little more than a restatement of the elementary textbook in public administration.

It is true, of course, that it is not always possible, and not always desirable, to follow this principle remorselessly to the end of the road. Adjustments among competing administrative principles are very often required; and this is elementary also. In the AID contract function, it is impossible for the heads of the major operating units to be given total and undiluted control over every phase of the contract operation. The five operating units must not be permitted to go off in five different directions (as TCA and FOA formerly went off in more than twelve) in disregard of the need for a reasonable amount of agency-wide uniformity in the definition and application of contract standards and policies. AID will need a Contract Standards Division that is not constantly obsessed with program urgencies and is able to keep its eye on preventing the cost of operations from rising unreasonably; it must be able to restrain the tendency of Program Officers to regard limitations on payments of fees, overhead, allowances and the like as obstacles to be cleared away whenever a contractor plays hard to get. The satisfaction of these needs we shall turn to in a moment; but the point we stress here is that the very broad assignment of responsibility to the operating units that we

have proposed should make possible a contract operation that will be directly responsive to program needs, whose officers will share the same sense of program urgency that motivates their associates who are dealing with programming, or budgeting, or technician recruitment, or other phases of regional operations.

What relations need to be established between the Contract Officer in each of the five major operating units and the other division heads in each Region and in the Office of Development Research and Assistance? We are deeply troubled by the fact that the June 30, 1961 document the President's Task Force entitled "Organization and Functional Statements for the Agency for International Development" (especially at pages 23-25) places the proposed Regional Contract Staff under the direction of the Technical Support Division; and that neither the organization chart on page 30 nor the textual discussion of functional assignments makes it adequately clear that all Divisions in each Region (including the Contract Officer), except the Geographic Area Divisions, are staff offices, not intended to share responsibility for directing operations with the Geographic Area Divisions but to serve and counsel the Regional Assistant Administrator and the heads of the Geographic Area Divisions. If this distinction between "line" and "staff" responsibilities is not more clearly spelled out, then AID will run the danger that it will merely have transferred from the Agency-wide level to the Region-wide level the weakness that made it almost impossible for ICA to act speedily and decisively. True, the weakness will at least have been divided by five,

and there will be five rather than one officer below the Administrator with authority to make decisions, but why should AID perpetuate within the Region what it sensibly insists upon terminating for the Agency as a whole?

We urge revision of the June 30 Functional Statements both in this respect and to establish the Contract Officer at a level coordinate with the other Staff Offices in each Region and in the Office of Development Research and Assistance. The Contract Officer in each of the five operating units, if our recommendations are followed, will become one of the key men under each Regional Assistant Administrator. Neither the Technical Support Division nor any other of the Staff Divisions in the Region should be made responsible for "directing the negotiation of a contract"; it is the head of the appropriate Geographic Area Division and the Regional Assistant Administrator who should give such direction to the Contract Officer. Not only the Technical Support Division but also the Development Planning Division, the Management Operations Division, and the Regional Legal Advisor will be needed to give appropriate staff support to the Geographic Area Division and to the Contract Officer in the performance of the seven major steps we have listed for each contract. It is important to remember in this context what we have said in Chapter Two concerning the broad and permeating scope that contracts will increasingly have to plan in the AID program.

(b) The Office of Development Research and Assistance

This is to be an impressive Office indeed, as planned in the new

organization. Its functions will include development research, development planning, institutional development, and evaluation. The presentation to the Congress has emphasized that many of these activities are to be carried out by the Office through contracts with universities, research foundations, development foundations, and others. This is the only major operating Office other than the four Regional Bureaus that is almost certain, therefore, to have a large enough volume of contract operations to justify the assignment of a Contract Officer and small staff of Contract Negotiators (number depending on work load) to work within the Office. The relations between the Contract Officer and the heads of the other Divisions in the Office should obviously correspond to the relations we have suggested for the Regional Offices.

It is this Office that promises to possess the wide variety of technical resources and skills that should enable it to perform for AID the crucial function of marshalling and developing private and public contractor resources from all over the nation to make available to AID, whenever a contract is to be awarded, adequate information concerning who is available, qualified and prepared to undertake the contract work proposed. To this important subject we devote the whole of Chapter Four.

(c) Office of Personnel Administration

This Office can readily take over the function of making those contracts that will employ the services of only a single individual. The standard form of contract for use with individuals already developed by the Office of Contract Relations (with the changes that we shall recommend in Chapter Five) will rarely need to be modified during negotiations. In the nature of the case, contracts with individuals raise few of the complex problems raised by contracts with firms or institutions. This assignment would reduce the contract work load in the other offices (288 contracts with individuals in the first quarter of 1961), without even requiring the appointment of a Contract Officer or Contract Negotiators in this Office; any competent personnel officer should be able to adapt the standard form to individual cases. About the only things to be negotiated are the scope and time of the work and the compensation to be paid.

We have heard charges that contracts with individuals have sometimes been entered into as a means of evading salary limitations on direct employment. If the charges are true we join in the condemnation; the slight advantage gained by such evasions is heavily counter-balanced

by the increase in Congressional suspicion and criticism. There are, however, several types of situations where a contract with an individual has no evasive purpose and satisfies important needs. Where the contract calls upon an individual to produce particular end products -- a survey report, a set of designs and specifications, the conducting of especially difficult negotiations with a government agency or other institution overseas are examples - the contract may make available for the performance of these tasks a qualified expert who is simply not available for direct employment, and the nature of the task will reveal the appropriate compensation. In such cases, what the Agency seeks is not so many hours of work per day but the delivery of the end product. Similarly, a contract with an individual may be needed where the contractor is to furnish office and personnel facilities that he may need; it may be cheaper for the Government to reimburse him for these than to provide them by detail or new employment.

This Office should also have responsibility for securing contract services for the briefing, training, and retraining of Americans going overseas. We suggest that the Contract Negotiations Branch of the Contract Standards Division handle the negotiations for such contracts as long as their volume continues low. If a major change in AID policy results in a high volume, the Office of Personnel Administration should be given its own negotiators.

(d) The Contract Standards Division

We have suggested that the Division contain a Contract Standards Branch, a Contract Negotiation Branch, and a Contract Reports and Clearing House Branch.

That a central Contract Standards unit can effectively provide agency-wide standards for a number of operating units, each of which does its own contracting, is abundantly proved by the experience of a number of government agencies - the Atomic Energy Commission, the Department of Defense and each of its main Departments (as well as seven principal Bureaus and Corps), the Department of Agriculture, the Department of Interior, the General Services Administration, the Veterans Administration, the Department of Health, Education and Welfare, and the new National Aeronautics and Space Administration.

There is an administrative pitfall here, however, which needs guarding: what is delegated to the Regional Assistant Administrators with one hand can be subtly taken away from them with the other in the name of the enforcement of Agency-wide standards. We propose two precautions against such a distortion of the proper functions of the Division of Contract Standards. First, the adoption and continuous revision of contract policies, standards, and forms should be a process which the Division of Contract Standards initiates, guides and stimulates, but does not exclusively control. The best way to achieve the results sought is for the six Contract Officers (four Regions, ODRA, and the Contract Negotiation Branch of the Division of Contract Standards) to join with the Contract Standards Branch in the process of formulating

the very policy standards and forms they are to administer. Some one unit must carry prime responsibility to initiate, propose and guide, and this should be the Division of Contract Standards. The documents initiated by the Division should require the concurrence of the Contract Officers who must live with them. If this may produce differences of opinion that must be resolved at a higher level, this will not be the only such process in the life of AID, and no organizational scheme can make it unnecessary for the Administrator and his Deputies to give top direction and make difficult decisions. This is precisely the process on which the Department of Defense , the Atomic Energy Commission and the other agencies named above rely for balancing the importance of Agency standards with the importance of decentralized contracting.

Secondly, we propose that each Regional Assistant Administrator and the Director of the Office of Development Research and Assistance be expressly authorized to deviate from established standards and forms in those cases where the officer is convinced that special administrative considerations require the deviation. In such cases he should put a memorandum in the file in which he assumes responsibility for making the deviation and sets forth the basis on which the deviation is deemed necessary. As we consider the level of men the Agency proposes to appoint to these responsible posts, we entertain no fear that this grant of authority, coupled with this requirement, will be abused.

We have considered, but abandoned, a proposal that the Contract Officers be appointed members of a Contract Standards Board of which the

Director of the Division of Contract Standards would be Chairman. Boards have a way of turning into committees, and administration by committee is notoriously ineffective, except in highly special cases. We doubt the need for going through the formalities of Board procedure. Frequent consultation, self-initiated, will serve the same need better, and if the men in these positions cannot be trusted to confer and learn from each other they will also fail to work together effectively as a Board.

The Contracts Standards Branch should also be responsible for preparing a Handbook on Contract Administration, and a group of Handbooks for Contract Negotiators, to serve the differing needs of three groups of Negotiators - the Negotiators in Washington; in the country missions; and in the host governments. We shall return to this subject; here we would stress that the contents will need to vary for each group of negotiators, and that many policies and standards are better enforced when offered as goals to be considered by officers assigned to particular tasks, with the reasons and experience that lie behind them adequately explained, than by mandatory prescriptions issued ex cathedra. Handbooks should be accompanied by informational bulletins and illustrative or illuminating case studies issued from time to time. To cite still another elementary rule, administration is a matter of leadership and education more than a matter of demands and prohibitions.

The Contract Negotiation Branch is intended to fill three needs. One is to negotiate contracts on behalf of any unit of AID that does not have its own Contract Officer. For example, the Division of Participant Training of the Office of Management Services can use the services of this branch. Another is to make available additional negotiators to

take care of peak loads in any of the major operating units. While on detail to an operating unit, the Negotiators should be under the administrative direction of the head of the operating unit. A third is to make Negotiators available to assist country mission directors and host governments in the ways described below. It may well prove necessary also for this Branch to specialize in handling contracts for major construction projects; and the heads of the operating units that do have Contracting Officers should also be free to ask this Branch to negotiate particular contracts on their behalf for any reason.

The Contract Reports and Clearing House Branch should receive monthly reports of all contract actions from every Contract Officer, on forms and in ways that should be mutually determined. The Branch can then furnish the Administrator, his Deputies, the Regional Assistant Administrators, the directors of country missions, and all others concerned, with suitable periodic reports and summaries that can serve the needs of management and control. Equally important, the Branch should serve as a clearing house which would promptly become aware when two or more Regions were seeking the services of the same Contractor, and be able to initiate the conference to resolve any problems this may raise; and perform all the other usual clearing house functions.

(e) <u>The General Counsel and the Controller</u>

The character of legal services, and of fiscal, accounting and auditing services are fortunately well established as being staff and advisory services rather than control functions. The caliber of men

proposed for the posts of Regional Assistant Administrator and Contract Officer provides assurance that they will know when they must seek expert advice on questions of law and questions of fiscal procedure. The assignment of a Legal Advisor to each Region and to the Office of Development Research and Assistance, already decided upon, strengthens this assurance. In the unusual case where an administrative officer threatens to proceed in violation of law or fiscal sanity, the General Counsel and the Controller will have adequate access to the Administrator.

The Decentralization of Contract Authority to Directors of Country Missions

It is not a radical proposal to urge that most of the authority and responsibility for contracting should be placed in the hands of those closest to the firing line, those who are directing operations at the site of activities. This means the directors of the country missions. Yet, we must admit that this would mean an almost complete reversal of the present attitude and practice in ICA.

For some years, most students of the foreign assistance programs have been urging very broad delegation of administrative authority to the country mission directors, and still throughout this period (with the interesting exception of the authority to procure commodities) authority has been steadily and increasingly concentrated in the Washington office, first of FOA and then of ICA.

Under FOA and the first few years of ICA, country mission directors could enter into contracts that did not obligate more than $100,000.

This limited their contracts to small operations; at best, this sum could provide for the work of perhaps four men for one year. In October 1958, ICA Regulation 6 reduced that authority to a ceiling of $25,000 per contract, and for some types of operations (for example, studies conducted under programs initiated by the Office for Private Enterprise) even this amount has not been available. Since $25,000 will at most finance one man's work for one year or three men's work for perhaps four months, this was little more than a sop thrown to the directors of country missions, is so understood by them, and is, therefore, rarely used.

There are few who will deny, in principle, the need for broad delegation. Yet this has always been an area of sharp conflict between headquarters and field. The paradox is traceable to the fact that the headquarters office cannot abdicate its responsibility to provide standards and guidance to its field officers. The Washington Office becomes aware of requirements and expectancies on Capitol Hill, in the White House, and in the Bureau of the Budget. Field Officers cannot learn of those requirements by intuition. The annual appropriations statutes may suddenly impose new demands or limitations, yet lawyers cannot be stationed in all missions. A technical staff in Washington is in position to see a broader perspective then the one available to a field chief in any one country. The country chiefs are so close to their problems and to their host-government counterparts that they are sometimes too close. It may occasionally be the salvation of a mission director's program that he is

able to refuse consent to a project urged by a host minister on the ground that Washington will not be persuaded. New mission directors enter the program every now and then. The desirability of broad delegation of authority should not carry with it the necessity of permitting each new officer to repeat all the old mistakes and disregard the lessons taught by years of experience.

Precisely here lies the rub. Once the need for headquarters guidance, assistance, and direction is admitted, the door is open for the kind of administrator who wishes to concede delegation in theory and deny it in practice.

Headquarters offices need to remember to distinguish between advance approval and subsequent review. Major new program activities probably should require advance approval in Washington, but thereafter action should be able to proceed in the field without continuing concurrences by headquarters. If a serious mistake is made in the field, there will always be some suitable way to make the necessary adjustments. Within the standards, policies and directions of the headquarters office, the responsible officers in the field must be able to act promptly without advance clearance and approval. Administrative procedures must honor field needs and grow out of their requirements. Supervisors are in danger of being so obsessed by Washington problems that they overlook the impact of their requirements and instructions on the widely differing activities within the host countries. The dignity and importance of the sovereign governments with whom the United States is cooperating; the widely varying conditions in the host countries; the

differing degrees of development that prevail; the necessity for adjusting all operations to the requirements, the pace, and the preferences of the local culture pattern - all these unite to make it imperative that competent people be recruited, that they be suitably trained and oriented for their work, and that they be given a broad range of responsibility and freedom of action.

We recommend, therefore, that a dramatic about-face be made in the policy and practice concerning country mission contracting. The way to meet the administrative problems that this will create is not, as in the past, by restriction; it is by affirmative support to able mission directors and their staffs.

In the paragraphs that follow, we set forth what we regard as essential to a vigorous program of decentralizing contract authority to the country missions. We do not, of course, advocate immediate blanket decentralization of contract authority to all country missions. We propose that there be instituted at once a vigorous, carefully designed and well-articulated program of delegation, progressively coming into force as the buttressing actions of policy formulation, training, staffing and guideline preparation can be instituted and bear fruit. The program, like any realistic program, must be selective. Many country missions are already capable of much greater exercise of contract authority than they now have, others can get ready for it only slowly; some small missions may never be able to do as much with contracts as larger missions. The important point is that there should be a policy of delegating to mission

directors as much contract authority as they can effectively use, and of taking positive action to see to it that their capabilities in this regard are rapidly expanded.

The plan to delegate such contract authority should try to reach as soon as possible a situation in which as many missions as possible can do most of their own contracting. The Regional Assistant Administrators should determine which country missions can exercise this authority soonest and extend the delegation as rapidly as feasible.

We doubt that it will serve any useful purpose to put a dollar limitation on this delegation, although it may be wise to require contracts for major construction work to be reviewed in Washington. If a dollar ceiling is to be considered, the order of magnitude should be in the neighborhood of $1,000,000 rather than the absurd limitation now in effect. The Contract Standards Branch should make available for transmission to the missions handbooks, contract forms and descriptive materials. The missions with large contract workloads should be authorized to appoint Contract Officers. Personnel should be available to move from Washington to the country missions for extended periods to give training in contract procedures. We have been impressed by the training and other support activities undertaken by the Office of Supply Services in ICA to make possible broad delegation of commodity procurement by country missions; and that Office is now planning a still more impressive delegation program.

Some elements of the contract job can never be wholly done in the field. This is true of the maintenance of current information on

contractor qualifications - at least for U.S. contractors. Washington should be prepared to support field contracting operations by providing adequate information on contractor qualifications for evaluation by the mission and the host institution concerned. It is not necessary to centralize the whole of the contract operation merely because some parts of it can more effectively be done at headquarters.

The emphasis in the delegation program should be on Washington-field cooperation to do the best possible contracting job. In Chapter Five we shall recommend extension of the device of pre-contract contracting to enable contractor and host agency, with the assistance of the country mission, to arrive at a real meeting of minds on what is to be done, within the environment in which the job is to be tackled.

Even where a particular mission is not prepared to handle particular contracts, it will often be better for the contract to be negotiated and signed in the field. Washington negotiators and other personnel should be prepared to go to the country frequently, whenever this appears desirable. In other situations, when negotiations in Washington seem essential, field personnel can be brought in to participate and to leaven the negotiations with awareness of local conditions.

The Office of Contract Relations complains that field PIO/Ts rarely provide an adequate description of the proposed scope of the work and other contract requirements. True; but it is in the nature of technical assistance to underdeveloped countries that it should be rarely possible to express on paper at the very beginning of the contract process a precise description of what the host government and the mission seek to do. What is needed to clarify ideas and develop agreement is the very process of contract negotiation

itself. That process includes the sharpening of a general idea into a specific definition of who will do what and when and how and with how much. The answer does not lie in asking the impossible of mission directors in the writing of PIO/Ts; it lies in moving the negotiations to the place where the parties primarily concerned can hammer out a meeting of the minds and a definition of the work by facing each other's demands and objections.

The authority to negotiate and sign amendments to contracts should certainly be delegable to nearly all missions, even before they are ready to carry broader authority. The present requirement for referring all contract amendments to Washington is, in our view, wasteful and needlessly irritating.

The Devolution of Contract Authority to Host Government Agencies

Most of what we have just said about decentralizing contract authority to mission directors reveals both the need and the possibility of broad devolution of contract authority to host government agencies and other local institutions. If the theory and practice of technical assistance has merit for agriculture, health and sanitation, and the other areas traditionally covered, it should have merit in the area of public administration - and in contracting for services, which is one of the important functions of a public administrative agency. The country missions, with the guidance and support of the Regional Assistant Administrators, can give technical assistance to host governments and to host universities to equip them to negotiate on their own with United States firms, universities and foundations.

The host governments must know what AID will require as a condition of AID financing for contracts. [illegible] of contract

authority is to be meaningful, therefore, AID must be prepared to assist the host governments in locating potential contractors, evaluating their capabilities, selecting the contractor, and performing the other major steps we have listed (on page 28) as being essential for every contract. The Regional Assistant Administrators should furnish the mission directors with suggested standard contract forms, with handbooks, and with specific information on financing requirements. Negotiators must be available for detail to host governments for appropriate periods. Special training programs will in many cases be required. The whole range of technical assistance instruments can be brought to bear to develop local competence in the use of contracts.

We have been told that local corruption will make local contracting in many cases rather hazardous. We do not doubt this; and we are recommending selective devolution; but devolution of contract authority is not at all inconsistent with firm AID standards on what contracts it will finance; and the influence of such corruption is not confined to the contract operation. Where such corruption exists, it is apt to reflect the total character of local government operations, and hence will emphasize all the more the need for technical assistance in public administration. A firm insistence by the country director and his staff on the standards that must obtain in AID financing operations will increase respect for the work of AID, and will strike directly at the corruption with the most effective techniques available to AID.

We are struck by the fact that the Development Loan Fund, the Export-Import Bank, the Inter-American Development Bank and the International

Bank for Reconstruction and Development have, for years, refused to negotiate or make the contracts that the underdeveloped countries must enter into to spend the monies loaned them by these Agencies. The Banks require the borrower governments to make their own contracts, and reserve the right to approve or disapprove them. They frequently require the employment by the borrower government of competent engineering, ~~management and~~ other services, and offer assistance in the process of contractor selection, but have not found it necessary to centralize in their own hands any part of the contract process. Now that DLF and ICA are about to be merged into the new AID, perhaps the process of osmotic inter-penetration can facilitate the necessary change in attitudes and procedure toward host government contracting.

Finally: even where the host government or host university is not to be doing the negotiating, the contract should at least run between the host institution and the contractor (rather than between AID and the contractor), and the host should participate in the negotiations. One never learns to do by being totally excluded from even observing how others do it. Mr. William L. Parks has called to our attention an ICA policy statement on this subject that is now studiously, determinedly, and almost consistently ignored. Manual Order 1240.4, issued in March 1955, states that it is the policy of the agency that "contracts for technical services should be executed by the Contractor and cooperating country government or an instrumentality thereof or an institution or agency within the cooperating country unless there are specific and important reasons which dictate that ICA should be a contracting party". (Underscoring supplied). This policy is

restated, although a little less emphatically, in ICA Regulation 6, October 1958, and is supposed to be fully in force. We think the policy was and is wise; we recommend that it be observed.

Relations Between Mission Directors and Contract Personnel

We do not recommend for AID the policy adopted by the Atomic Energy Commission of conducting practically all its activities through contracts. The International Development Program does not lend itself to such a policy; a large variety of systems of operation must be used if technical assistance is to be fully effective. (See, for fuller discussion, the report "Systems of Operation in Technical Assistance", by John H. Ohly, April 25, 1961.) The country mission will, therefore, be conducting a number of operations directly at the same time that it is supervising or maintaining contact with a number of other operations carried out through contracts. This is all to the good, because the mission staff will be learning what to expect from contractors by observing their own experience in direct operations; and contract personnel will find themselves educated by their contracts with mission personnel.

We do not believe that the question of the relations that should exist between the country mission director (including his top staff) and the contractor's chief of party and other personnel is either an obscure or a difficult one.

It is true that many contractors, and especially the universities, have demanded complete freedom of action and have resisted what they regard as undue interference by the mission director. In turn, some mission directors refuse to use the contract device, except where they must, because

of an assumed inability to exercise proper "control" over contract activities.

We believe the answer lies in drawing a necessary distinction between two broad classes of contracts. The first class includes all those contracts which carry forward segments of the AID program in the country which could just as readily have been undertaken by AID employees directly, but for which a contract has been used as a convenient instrument. The second class includes all inter-university contracts and those other contracts which cover activities in specially sensitive areas or in areas in which the direct participation by U. S. Government employees is unwelcome to the host government. We have described this second class at some length in Chapter Two; it includes contracts in such fields as technical assistance in development programing, in land reform operations, in tax and tariff reform in the case of some countries, mineral exploitation in the case of others, and so on.

We believe the sound procedure to be that in the first class of contracts the director of the country mission should exercise the same close direction and supervision that he exercises over all operations conducted through AID employees. For this group of contracts, the contractor's chief of party should function as though he were a division director on the staff of the AID country mission, and should attend the mission director's staff meetings and otherwise perform as does any other division director in the mission.

The second class of contracts presents, however, a totally different set of needs. Here, one of the primary purposes for the use of contract

is to separate and insulate the Government of the United States from what might appear to be direct intervention in areas where few sovereign governments will welcome the interposition of another sovereign.

When a United States university, for example, undertakes to work closely with the faculty of a host university, the two faculties should be encouraged and allowed to work out their own destinies in freedom of action. Independence from government control is one of the major lessons that the universities of the United States are seeking to teach. Similarly, it would seem to be pointless for the U. S. Government to give development programing assistance by contract rather than through U. S. employees in order to guard against the dangers discussed in Chapter Two and then to require that the contract employees frequent the American Embassy and the office of the country mission and attend their staff meetings.

This is not to say, by any means, that the mission director and his staff should utterly ignore the contracts that fall in the second class. Anything that happens in the country and that is financed directly or indirectly by AID is inescapably a part of the responsibility of the American Ambassador and the Mission Director. What this does require is that the Ambassador and the Mission Director rely upon being kept fully informed by the contract chief of party and upon their ultimate power to consult and advise rather than upon any immediate power of daily direction and supervision.

It is not the daily details, but the broad scope, purposes and methods that, in this second class of contracts, properly concern the

Ambassador and the Mission Director. If they are kept fully informed, they will be able to anticipate dangers and head them off, and bring their own knowledge and opinions effectively to bear on the minds of the contractor's representatives. It needs to be recalled here that every one of these contracts reserves to AID the power to terminate any contract on sixty days' notice as well as the power to compel withdrawal from the country of any contract employee who proves unsuitable. With these ultimate controls in the background, and with the right to be kept fully informed, the Ambassador and the Mission Director need only show qualities of leadership to be able to control the situation quite adequately without the slightest necessity for daily intervention.

Chapter Four

Marshalling and Developing Contractor Resources

AID's new approach to contracting should begin with a realization that AID cannot exist alone, as the one specialized agency in international development. Both the President and the Secretary of State have called for a national effort to help the less developed countries. AID cannot be responsive to their call unless international development becomes a genuinely national effort, not confined to a single government agency. First of all, AID does not have and cannot directly employ sufficient personnel by itself to do the job. It cannot employ people with appropriate educational backgrounds if the universities have not turned out such people. It cannot employ or acquire by contract persons with wide experience abroad unless other public and private employers give their professional personnel the right kind of opportunities overseas.

The dimensions of the task are so great, the resources needed are so many, that broad understanding of the requirements of the national effort for international development is necessary throughout the country. Understanding is a prerequisite for the necessary participation of many groups and individuals in meeting the resource needs of AID. Once the process begins, a snowballing effect will occur. Understanding and participation will lead to more general support for the entire effort in international development which in turn will lead to more interest in active participation.

AID should assume the leadership in marshalling the country's resources for the international development program. It should do more than this: it should seek to strengthen these resources so as to make them more adequate for the program's expanding needs. AID should see itself as the responsible government authority, policy and decision maker, program planner, and spearhead of a truly national effort. It must tap and enlarge our riches of business, professional, and institutional resources. It must mobilize, activate, and encourage all segments of American life to make as great a contribution as possible. It must persuade contractors of the need and the advantages to them of participating in the program.

Essentially, AID must become an entrepreneur, seeking to attract as many groups into the program as possible. Part of the entrepreneurship can be undertaken by individuals or groups with whom AID can contract. Consultants could visit various businesses or universities, to ascertain interest and assess competence for the resource-providing and the resource-developing functions. Associations of universities could do the same for their members. They could also hold meetings at which interested parties could discuss needs and resources. Professional groups with their annual conferences and personnel services could assist. The Conference Board of Associated Research Councils has the largest organization for screening university personnel in the United States, through its activities in the Fulbright program, and could be a potential contributor to the program. The Association of General Contractors could be helpful. In whatever manner it is undertaken, entrepreneurship will not only support the contract function of AID; it will greatly assist its direct employment

The entrepreneurship responsibility cannot be taken lightly; AID must specifically organize for it. AID needs to have an office that maintains continual liaison with potential contractors and resource developers (such as universities). Information about AID plans, programs, and needs would be funnelled to such groups. Information about the resources, needs, and availability of the groups would be obtained for AID. Assessments of the potential capacity and capability of the groups would also be needed.

Contracts are not just second-best devices. Their use does not reflect on the professional capability of government employees. Contracts are a means of marshalling and strengthening the resources of the country for the program of international development. They are a way of obtaining services from the entire institution concerned, its characteristic approach and method of operation.

Procedures Available for Marshalling

AID's leadership role can be pursued in many ways. Contracts are only one means of marshalling and strengthening the resources of the country for international development. Many contributions of the country to the program have been and will continue to be voluntary. For example, short participant observation, internship, or training has been typically handled on a volunteer basis. Community hospitality programs are nearly everywhere without cost to AID. Volunteer efforts should be encouraged and strengthened. The activities of corporations, foundations, and universities frequently further international development even though they are not financed by AID. International agencies and many United States

Government departments are actively interested in and pursue international development objectives, quite apart from AID. To the extent that these efforts can be encouraged, the job of AID is made the easier.

Herein lies an opportunity for both the contract and non-contract devices of AID. Through special meetings, professional conferences, discussions, contracts, personal contact, publications, audio-visual techniques, and other devices, AID should assume leadership in encouraging those organizations to become more interested in international development on their own. To give leadership to a national effort requires that AID should not expect to do the job alone, or even to be in the position of approving or disapproving each involvement overseas. Many contributions are desirable, many opportunities for the host countries needed.

Direct employment is a major alternative to contracting. A certain amount of direct employment is also a prerequisite to effective contracting. At a minimum, AID needs a core direct employment staff, both in Washington and in each host country. The staff must be of sufficient size and competence that it can plan effectively the use of direct employment and contracting in relation to volunteer or other direct action by non-AID groups. AID's direct employment staff must be of sufficient size and specialization that it can review contractor performance effectively. Furthermore, AID will always need to perform some technical assistance functions directly. In some areas of its concern, no suitable contractors or volunteer services will be available. At the least, AID must get a direct understanding of and "feel" for the problems of bringing about change in the host countries, which can only be obtained through direct participation in the process.

Contracting and direct employment are thus not competitive but complementar Many factors will lead to reliance on one or the other device. The attitudes of the host government or institution, the nature of the services to be rendered, and the character of the relationships thought to be best will help influence the choice, as will still other factors. The exact extent of contract services compared to direct employmnnt should not and cannot be made the issue of precise AID policy. The desirability of particular contracts is essentially a pragmatic matter that will vary from unit to unit, mission to mission, and host country to host country. Contract, direct employment, and volunteer or other direct action by non-AID groups can be combined in many ways. The exact combination in any particular instance will likely be an innovation unique to the case at hand.

Contractor Resources of the Country

A survey of the contract resources of the country reveals that ICA has made limited use of most of them. A great expansion of the resources entering the international development program can take place very rapidly through more imaginative contracting. Two conditions must be met: AID must see the positive advantages of so doing, and it must make the contracting process and contract operations attractive to prospective participating organizations. There are many types of contractors among whom AID can choose:

1. The universities and colleges of the United States have participated in over 100 contracts abroad plus many for services within the Unites States.

The number is not impressive when put in relation to the more than 2,000 institutions of higher learning in the country. However, it would be unrealistic to assume that any great proportion of these institutions could actually be parties to contracts of substantial size for AID, since their facilities and staffs are limited. Some universities with large facilities and staffs have refused ICA contracts, because they consider them incompatible with the objectives of a true university, with their many restrictions and ties to the government agency. Appropriate changes in AID contracting practice and philosophy would encourage some large universities to accept contracts which they have refused to date. Universities are excellent contractors for research and resource development, areas that will be essential for a successful AID. Some subject-matter fields are more over-crowded with university contracts than others. There has been a noticeable lack of use of university-wide contracts, that is, contracts of multi-purpose, at home and abroad. In the future, additional resources can be made available by the encouragement of consortia of universities, permitting several institutions to pool their capacities and abilities so as not to place an undue burden on any one of them. AID must recognize that there is a national shortage of university professors in most fields, and that it must make contracts as compatible as possible with regular university activities if it is to make much additional use of these institutions in the future.

2. The United States has dozens of major professional associations that play key roles in our society through their journals, conferences, personnel services, and in general by their reinforcement of professional

attitudes and standards. Professional associations vary greatly in the size of their central secretariats and their willingness to place their organizations at the disposal of an agency such as AID through contracting. Professional associations could be ideal contractors for preliminary surveys, the holding of special conferences, contacting qualified universities and individuals, appointing panels for analyzing proposals, etc. Many of their secretariats are located in Washington, where they can be a constant source of ideas and support for AID.

3. Private non-profit corporations exist in large numbers in the United States and some of these have been ICA contractors. Groups such as the American Institute for Research, the Bureau of Social Science Research, the Stanford Research Institute, the Governmental Affairs Institute, and Public Administration Service can perform a wide variety of research, consulting, and conference-holding functions for AID. While the use of existing groups of this kind could be moderately expanded, a major increase in use of such groups could come through the expansion of the number of them. AID should encourage the formation of additional private non-profit organizations of many kinds that can have as one of their functions contracting with AID.

4. <u>The Development foundations</u> are a relatively new type of non-profit organization, brought into being by the needs of the technical assistance program itself. The first one, so far as we know, was the American International Association for Social and Economic Development (AIA), founded by Mr. Nelson A. Rockefeller shortly after his retirement from the

post of Co-ordinator of Inter-American Affairs. Its operations were formerly confined largely to Brazil and Venezuela and now are expanding AIA was adequately endowed from the beginning and never sought an ICA contract.

In 1953, Robert W. Hudgens, who had formerly been the directing manager of the AIA work in Brazil and Venezuela, with the encouragement and assistance of Mr. Rockefeller, established a somewhat similar foundation, International Development Services, Inc., transferring to IDS many of the staff members employed by AIA. IDS is administering several contracts with ICA.

Here, too, AID can undoubtedly encourage the coming into existence of additional development foundations by making contracts available to those who show competence and responsibility. This is a process that will enable AID to encourage the fashioning of new tools specifically and peculiarly adapted to achieving the purposes of the AID program.

For some of the sensitive areas we have described in Chapter Two - and especially land reform and development programing - such development foundations may turn out to be among the most suitable contractors. International Development Services, Inc. has already pioneered under contract with ICA the initiation of land reform through supervised agricultural credit in Guatemala, Bolivia, Costa Rica and Chile.

Some of those we interviewed have urged on us that AID should consider participating directly in the establishment of four large development foundations, to be organized as non-profit corporations, one for each of

the AID Geographic Regions, so that AID may contract with them for the administration of sensitive programs. The proposal is analogous to the Rand Corporation used by the Air Force, and similar corporations for these purposes (but primarily for research) by the Army and the Department of Defense. In the time available to us we were not able to explore this proposal deeply enough to make a confident recommendation, but we urge the Office of Development Research ~~and Assistance~~ to explore the proposal throughly. We incline to the feeling that it would be wiser for AID not to depend too much on any single development foundation, even one which it has helped to establish, for all the work in any Region. It seems unnecessary for AID to develop a "chosen" or "preferred" instrument. Competition among several such development foundations is likely to prove healthy.

5. Regional centers, such as the East-West Center of the University of Hawaii and the prospective hemispheric center at the University of Puerto Rico, can be valuable devices for contracting and subcontracting. Additional regional centers could also be established and would be good locations for participant training, preparation of staff headed overseas, regional research, and similar AID requirements.

6. The voluntary service agencies can recruit many Americans for services overseas for AID. They can also administer contracts for community development projects and some educational and agricultural projects. Some of the better known agencies are the American Friends Service Committee, International Voluntary Services Inc., and Unitarian Service Committee.

7. A major oversight in present contracting practice is the failure to use state and local government agencies. Except for one or two instances (in public health) there have been no contracts with state and local

governments. Among the major cities and 50 states a tremendous pool of professional manpower is to be found. It is here that the major domestic services of government are performed in the United States. Of course, participants have been sent to many state and local agencies on an ad hoc, unreimbursed basis. Of necessity they get an ad hoc, make-shift experience. Contracts with state and local governments would be possible for much of the participant training program so as to put it on a sounder, more intensive, more professional basis. These units also could take on consulting and training programs overseas on a selective basis. Cooperative arrangements between the state government and the state university could result in providing joint services abroad and at home. Here are opportunities waiting to be taken.

8. Interagency agreements, although not strictly contracts, are comparable to them in that they are means by which additional resources can be brought into the program. A number of inter-agency agreements already exist, both for participant programing and training and for sending technicians overseas.

The early life of the Technical Cooperation Administration was bedeviled with a jurisdictional controversy as to whether ICA was to run its own program and call on the other departments of the Federal Government for assistance in planning and operations and in lending their personnel, or whether each department of the government was to be in charge overseas of the same activities it performed within the United States, with TCA serving as "Co-ordinator". One of the good contributions that the Foreign

Operations Administration made to this program is that it firmly established the fact that FOA would carry total responsibility for planning and operations, but would enter into Memoranda of Understanding with the Participating Agencies under which specific programs and projects would be assigned to the Agencies for direct administration under the over-all supervision and direction of FOA. ICA has retained this sound and healthy policy and we assume that AID will also. The Memorandum of Understanding is, of course, just another form of contract, but less detailed and prescriptive because all Federal Departments answer to the same Congress and President.

The participating agencies have consistently felt in the past that ICA and its predecessors excluded them too much from consultation on program policy and procedure. The Department of Agriculture and the Department of Health, Education and Welfare, in particular, resent what they consider their relatively minor role. Even though AID must continue to insist upon carrying undiluted final responsibility, it is a terrible waste of the institutional strengths of the other government departments and their great pools of skilled personnel for AID not to work out with them procedures that will facilitate very full participation by the other departments in the total process from initial planning to final execution. In the world of the 1960's, foreign affairs can no longer be the exclusive domain of the Department of State. (This has been said so often that it now ranks as a truism that everyone is entitled to ignore and forget.) The agriculture of the United States is the greatest single "access story" that the United States can boast of; the U. S. Department of Agriculture is one of the most broadly

skillful scientific and technological organizations in the whole world; the Department of Agriculture can contribute immeasurably to the improvement of AID operations at every stage if the Secretary of Agriculture and his Bureau Chiefs can be persuaded that AID respects the Department's high skill and competence and is eager to give it extremely broad scope to lend its great strength to the International Development Program. What we have said of the USDA applies also to the other great departments of the Federal Government. The Memoranda of Understanding with those Departments should be reviewed, because they should spell out much more clearly the partnership of effort we are proposing.

9. ICA and its predecessors have almost overlooked trade union associations; they are a rich potential source. If American agriculture is our greatest success story, our strong and free trade unions run a close second. An industrial democracy is almost inconceivable without free and strong trade unions. We would encourage AID to confer with the AFL-CIO and with individual unions to determine their willingness to undertake by contract with AID to assist the growth of similar unions in the underdeveloped countries who request such help.

10. Commercial contracts for capital projects and for professional and technical advice overseas are the overseas contracts that are most similar to commercial contracts in the United States. However, the similarities are more apparent than real. Abroad, it seldom is effective to provide equipment or a reorganization plan without installation services. Local personnel must find out the how and why of installation. And complete installation is ineffective unless there are training programs for

maintenance and operation. A large portion of commercial firms in the United States has not had very much experience with this kind of training. Commercial contractors should take steps to enlarge their competence and, if necessary, AID should be prepared to supplement commercial contracts with training programs of its own.

11. Contracts for the services of organizations in third countries are relatively rare. These can be greatly expanded in number. Third country contracts are especially useful where any one of four conditions prevails: where the area of assistance to the host country is especially sensitive; where language competence other than English is required; where United States resources are badly strained; and where a demonstration of several approaches is especially desired rather than just an American approach.

12. Personnel contracts are instruments by which the services of particular individuals are obtained for the program. They are far from mere appendages of the personnel office. Host countries often use them to hire temporary American staff members or advisers. Their use will be more important in the future than in the past, as technical assistance activities affect more sensitive areas of the host government such as development programing.

As it approaches the task of contracting, AID should remember that its contract policies must be flexible and adaptable so that both its own needs and the requirements of each major kind of contractor can be met.

Competition for Contractor Resources

There are many calls upon the facilities and staffs of contractors. Fundamentally, of course, major demands upon the contractor's staff are for his own purposes. Thus the major calls upon university staffs are the regular program obligations of teaching and research; these have a claim prior to any other. Similarly, a professional association must first perform its essential functions before thinking about taking on outside work. State and local governments have obvious first calls on their facilities and staffs.

Within the U. S. Government, many agencies concerned with international and domestic affairs turn to contractors for services and thus compete with AID. The Department of Defense, the Peace Corps, and the Bureau of Educational and Cultural Affairs of the State Department are prime examples. On the domestic side, the Department of Agriculture, Office of Education, and Public Health Service Stand out, as do the Atomic Energy Commision and the National Science Foundation. Most of the agencies take an entirely different approach to contracting from that taken by ICA. They seek to build up the programs of their contractors as well as obtain services from them; they have a cooperative approach that stresses that the contractor is performing a service for them, and they are grateful.

AID needs to recognize that at the very best it is in a highly competitive market of scarce resources. To make its way in this kind of situation, it should adopt new concepts that permit it to compete on favorable terms. If it does not, it will find its resource base pro-

gressively shrinking.

Universities, professional associations, businesses, and other contractors have their own identity and existence quite apart from AID. If participation by these groups is to be maximized, AID must recognize that each organization has its distinctive objectives and purposes. For the most part these purposes will be different from those of AID, to some extent complementary, and occasionally they will be similar. AID must understand that the objectives of these groups are important as well as its own objectives. Its policies must reflect this understanding if the groups are to become involved in the international development program and a satisfactory relationship between government and contractor is to be attained. Increasingly, AID should develop areas of contracting that will be of benefit to both AID and the contractor.

Genuine concern for contractors includes a recognition of the desirability and even necessity of keeping contractors "in balance." For example, a contract with AID may seriously unbalance a university; unduly drain resources in a given subject-matter field; or it may unbalance extension work as compared to teaching and research. A very large contract may over-weight small private contractors in the proportion of their total effort going into AID work. Professional associations may be forced to spend too large a portion of their staff time on a large contract. Unbalancing can be prevented by more careful selection of contractor,

keeping in mind the size and diversity of his staff. Broader contracts will help maintain suitable balances even though the contracts are large. If a university is given a contract that includes both research and teaching, and is multi-field, its balance may be maintained much better than with a smaller, more restrictive contract.

Contractors must also expect to adjust to AID's program requirements if they are to participate. For example, it is more convenient for many contractors to travel only to Washington, and to deal always with a single man in contract negotiation. We invite universities and other contractors, nevertheless, to consider their own responsibilities in development assistance. Much of the contracting should be done in the host countries for the reasons already discussed, and contractors should adjust to this fact.

Adjusting AID policies to meet competition from other U. S. Government agencies is only one side of the coin. Cooperation is the complement of competition, and AID should actively explore the possibility of joint use of contractors with other government agencies. AID, the Peace Corps, and the Bureau of Educational and Cultural Affairs could work out joint programs with certain universities or non-profit organizations. At present each organization may approach a university for services in different fields in different countries. The three agencies could get together and present a more attractive package to the university. The combined package could concentrate on a single country rather than on three unrelated countries. It could include a balance of research, teaching, and extension, rather than concentrating on only one. The experience a university obtained from

one arrangement could be related to the task it was to undertake in another. In this manner, its contribution to each of the three programs could be maximized with a minimum amount of expenditure of time and money.

Expansion of the Resource Base

The additional resources that could be secured through more competitive contracting, joint or cooperative contracting, more varied and selective use of the many types of contractors that are presently available, and removal of contract difficulties, are very substantial. AID's leadership role requires it to go beyond. The needs for international development are so great and the available manpower so small that the resource base must be expanded. This is an integral part of the new challenge of AID.

Broad multi-purpose grants, perhaps in cooperation with other agencies, should be made to universities to help strengthen and enlarge their staffs in development fields. This is within AID's statutory powers if each grant or contract will serve a direct AID program purpose. More development research of many kinds and more teaching on the home campus on development subjects would lead to greater knowledge in this area both for university staffs and for the country as a whole. Universities are institutions that educate and train hundreds of thousands of Americans each year, and they thus are prime organizations for strengthening the resource base for international development.

There is no reason why broad contracts should be confined to universities. AID can derive equal advantage by using such contracts with private non-profit corporations, professional associations, and similar groups. Not

only will they be more willing to contract with AID under such circumstances, but also their knowledge and interest in international development will be enhanced, making it possible for them to use more of their resources for international development, and in the case of professional associations, stimulating their members' interest and participation.

AID is confronted with vast development needs of many countries. It believes in the desirability of a country development plan. AID will therefore be looking for contractors able to take on technical assistance of a general development programing type. Such an undertaking can be attractive to many prospective contractors, but it requires a major commitment by the contractor, since the process will be one of many years and will be many-faceted. AID should make a similar commitment to the contractors. In some instances, a contract for a decade would be constructive. Contractors could then set about building up their staffs to meet such a long-range commitment; they could do so on a permanent basis rather than on the present ad-hoc arrangement.

In addition to the expansion of existing resources, entirely new units should be encouraged that will add to the contract alternatives for AID. We have mentioned several of these: consortia of universities, special private non-profit corporations, regional centers. Similarly, new units of existing organizations could be encouraged. Universities could establish new institutes of development programming, new area studies, and new development administration and development education programs. Professional associations could set up new international sections.

Profit and non-profit corporations alike could organize new international divisions. AID can encourage such new units by its attitudes and contracting policies; new units hold much promise.

The Unique Contribution of Universities

There is an underlying resentment or distrust of universities throughout much of ICA. Cynically the question is asked, "What's different about universities?" The answer is implied in the way the question is put. The predominant feeling is that universities should be treated like any other group in our society. A more extreme attitude is also encountered. Some staff members of ICA think that universities are not to be trusted. This point of view was sharply expressed by one staff member who claimed that universities were fundamentally dishonest because they pretended to be able to perform certain services and then wanted money for research. He felt that either universities are or are not capable, and have or do not have know-how, and that the universities ought to make up their minds which alternative they stand on.

Universities are different. They are the apex of the educational structure of a country. Their activities intimately affect and are affected by the entire educational system and the entire system of manpower requirements and manpower availability. They thus are a keystone to development. This is as true in the United States as it is in the host countries overseas. It is as true for strengthening our resources for international development as it is for strengthening the resources of the host countries.

Universities the world over require a sustantial measure of freedom to perform their functions properly. They are reservoirs of ideas, of

experimentation, of forces for change in society. No free nation can afford to shackle such institutions, for to do so is to restrict the possibility of growth in the future. It is imperative that in inter-university contracts an American university give a demonstration of a quasi-autonomous institution, devoted to truth, and an institution that at the same time is of constant assistance to the community of which it is a part.

Universities symbolize the whole educational approach to technical assistance. Introducing change into host countries is of necessity both an administrative process and an educational process. By their very nature, universities specialize in introducing new ideas by educational means. Commodities and financial resources are essential in any balanced development assistance plan, but an educational approach is equally essential. Universities are leaders in this field.

Actually, university technical assistance may be a misnomer. The difference between technical assistance and educational exchange, and the difference between what universities normally do and technical assistance, are unclear. It may be desirable to eliminate such distinctions. If they were eliminated, the task of American universities would be clearer. They could relate to their colleagues in host countries, extending advice or otherwise helping in teaching, research, and extension functions according to the plan of the host institution. Such an approach will be increasingly necessary in the next decade or so as host countries become more sensitive to "technical assistance" from outside. The United States can no longer

afford to have foreign visitors to our universities called exchange professors and our visitors to their institutions termed technical assistance advisers. Furthermore, if the unreal distinction were eliminated, American universities would be in a better position to learn from their experiences abroad, to import as well as export ideas.

American universities have staffs in many fields and broad, coordinated educational programs. They meet our own top educational needs in the many fields. Consequently their regular activities are far different from those of other contractors: far broader, more institutional, and more basic. Second, they are multi-phase in their activities: their programs at home include education and training for regular American students, foreign students and trainees, and American adults, as well as research. Abroad, they send their staff members for research, technical assistance, and educational exchange. Student-abroad programs are also becoming more numerous. Third, the universities reach to all corners of the 50 states with their educational, training, and extension programs. They are excellent vehicles for carrying the dramatic story of the development needs of the world. Fourth, they are responsible, non-profit institutions. All of them are accountable to their own boards of regents or trustees. All the public universities are accountable to legislatures in addition. They have had decades, even centuries, of experience with handling public funds and funds entrusted to them by others. They desire to do a good job, since their very reputations depend upon it.

What ODRA Can Do

The difficulties of locating adequate numbers of technicians and administrators for work overseas have carved lines of anxious concern in the faces of the administrators of technical and economic assistance since inception of the program. ODRA can do much to erase some of these lines by vigorously exploring all of the sources previously suggested for contracting. They are sources for direct-employment recruitment as well as sources for contracting.

ODRA should assign men and money to the tasks of gathering, sorting, evaluating and summarizing information concerning men and organizations in every field of AID activity. The officer responsible for contractor selection in a given case can then inform ODRA of his needs. ODRA should have people available to confer with that officer, and submit to him specific recommendations. This can make far more meaningful and rewarding the process of soliciting bids, or comparable proposals, or selecting the one or two persons or organizations who are to be called in for interview and negotiations.

Precisely the same services should be offered by ODRA to the country missions and to the host governments. These should be informed of what ODRA is equipped to do to help them on problems of locating appropriate personnel or contractors.

We have said in Chapter Three that the last of the seven steps that must be performed for each contract is an evaluation of contractor performance and contract results, after each contract is closed. These reports

should be forwarded to ODRA, and ODRA can assure itself of receiving more adequate reports if it will develop simple but adequate report forms and instructions. Through its Evaluation Division, ODRA will make its own broad, long-range evaluation.

The positive action required from ODRA would include much more. It can also (1) appoint panels of specialists to visit institutions and business firms, discuss their programs and interests, evaluate their qualifications, and feed the information into a resource data system; (2) distribute a publication which describes the character of AID work, and tells how an interested organization can go about registering its capabilities with AID, and makes clear that AID welcomes additional contractor resources; and (3) invite professional associations and societies to suggest ways and means for developing new resources.

One of the most important functions that ODRA should perform we have reserved for last. Today, when a university president or dean, or a foundation director, or a trade association executive, or the head of a firm would like to visit ICA and x discuss his interest in the foreign assistance program with some one who is thoroughly informed about universities, foundations, or trade associations for business firms, there is no single liaison office for him to turn to. This can be not a little frustrating. The visitor should not need to talk to all four Regional Assistant Administrators to acquaint them with his interest in operations anywhere overseas. We recommend that ODRA establish appropriate liaison offices for all these purposes. One excellent way to perform this liaison function is to invite universities, foundations, and others to nominate people who are willing

to serve for two or three years in these capacities in ODRA. The goal should be a friendly relationship between ODRA (and all other units of AID) and the spectrum of American institutions.

As originally outlined, neither ODRA nor any other part of AID is organized to carry out many of these important functions. There is no unit in which development education (in the broad sense of the term) or the educational approach to national development is central to the unit's purpose. There is no central unit for manpower and technology. There is no unit charged with the responsibility of encouraging prospective contractors to develop program interests that would be mutually beneficial. There is no unit that will be the professional liaison with the many fields of knowledge and professional activity in the United States that could contribute to the program. There is no unit to take leadership in developing advisory panels for contractor identification and screening, with the selection of the contractor left to the AID operating unit. There is no unit at any responsible level where a university president might go to discuss plans for involving his institution in contract work. There is no office that suitably can represent AID before groups interested in development education. There is no unit that can coordinate use of resources with other agencies such as the Bureau of Educational and Cultural Affairs and the Peace Corps. In short, commodity and financial assistance have recognizable homes, but the educational approach to technical assistance does not.

There are many ways in which AID and ODRA can organize to fill these needs. One way would be to establish a Professional Resources Division in ODRA which would be assigned most of the responsibilities listed in the preceding paragraph and some similar ones presently designated for other divisions; it would have the task of marshalling and strengthening the resources of the country for development assistance.

In addition, an Development Education Adviser, reporting to the Director of ODRA (and not to be confused with the Education Branch of ODRA which would have educationist-type functions) would exert leadership in the area of inter-professional and higher education matters and provide liaison with higher education in general. At the same time, the Adviser would be concerned with furthering an educational approach to development assistance abroad.

Chapter Five

CONTRACT ADMINISTRATION AND PROCEDURE

The Office of Contract Relations has introduced a large amount of order into the "administrative chaos" that preceded it. It has developed standard contract provisions for the various types of contracts that ICA is using; it has conferred with representatives of the universities and has developed much-improved ~~standard contract~~ provisions for university contracts; it has established central contract files and developed a record and inventory of all current contracts. ICA Regulation 6 sets forth uniform policy and procedure for non-university contracts.

But apparently orderliness was not the only virtue that was lacking. The contract operation in ICA has a worse reputation today, both inside and outside the agency, than it had before order was established. The delays are greater; contractors are kept at arm's length, their motives often suspected, and their alleged interest in public service often lightly regarded; and negotiating sessions with contractors have become lengthy haggles over minor issues and minor costs. People newly transferred to Washington from field operations who have accompanied contractors to these sessions have expressed their amazement at the rigidity and unfriendliness that characterize these negotiations.

We held two panel discussions with contractor representatives, and interviewed other contractors individually. One panel session was

with commercial contractors, the other with university contractors. When contractors are called in and invited to air their views of the contract process, one, of course, expects to hear many complaints, but we confess we were taken aback by the unanimity and severity of the criticism. We asked a number of officers of ICA what they thought the reasons were, only to have them join in the complaints against delays, lack of sympathy and imagination, haggling over details, the ~~inadequate education and~~ training of negotiators, and a general atmosphere of negativism.

The difficulties seem to center especially around four points: (1) the competence of the negotiators; (2) the conduct of negotiations; (3) the content of the ICA "boiler plate" in the standard provisions; and (4) contract administration.

We did not undertake to interview all the negotiators or to study their personnel files. We invite AID to do that for itself.

In this chapter we shall first examine the negotiation process; then the ICA standard provisions; and then Contract Administration. Perhaps we may discover some of the reasons for this "winter of our discontent".

Negotiating with Contractors

For the reasons stated in Chapters One and Two, the authors of this report do not regard the awarding of a contract as a grant of patronage to the contractor. We do not find in the history of U.S. Government contracting support for a belief that the business firms, foundations and universities of the United States are out to get all they can from the Government and give no more than they have to. We see no reason to doubt that the

officers and employees of contractors are just as much devoted to the public interest and to advancing the purposes of foreign assistance as are government employees. We agree wholly with the attitude and spirit expressed in a bulletin issued by the Atomic Energy Commission in January 1951, and still in effect, entitled "AEC Contract Policy and Operations". On page 52 of the bulletin, AEC quotes the following from its standard contract forms:

> "It is the intent of the Commission and the Contractor that this agreement shall be carried on in a spirit of parternership and friendly cooperation with a maximum of effort and common sense in achieving their common objectives".

The same page of the bulletin then goes on to say:

> "Negotiation of each contract presents its special problems. AEC typically adopts the personnel, accounting, purchasing, and other policies of contractors-particularly industrial contractors - to the fullest extent consistent with basic governmental requirements. It has moved away from requiring detailed approvals of individual transactions of small monetary value and depended upon developing sound policies and making spot checks to assure compliance".

It is open to AID to make a fresh approach.

The ICA Standard Forms and Provisions

We do not intend to bore the reader with details. Nor can we undertake here to rewrite the boiler plate. We shall, instead, list some of the provisons we have discovered that seem to us unwise, some of which prohibit what they should encourage, and some of which seem unreasonable or unfair. We shall then suggest three guides that we believe might well motivate the effort at rewriting the standard provisions that AID should undertake as soon as practical.

Our illustrations are all taken from the document entitled "Outline of a Direct ICA Cost Contract with a Firm for Overseas Services", issued

July 1960 and now in use. This document shows skill in draftsmanship and is a great improvement over the incomplete and ambiguity-riddled contracts that were characteristic of the period immediately preceding the establishment of the Office of Contract Relations.

(1) Salary Approvals. A number of contracts limit salaries for overseas employees to 105% of the employee's average salary for the prior three years, and any salary that exceeds this formula must receive prior Washington written approval. This is unrealistic; few employees will go overseas for only a #5% increase in salary; ICA and its predecessors have consistently been compelled to offer larger increases in salaries to recruit people on direct employment to go overseas. The result is to compel the agency to review a large volume of requests for salary approvals at higher rates.

It is true that employees of private contractors working overseas are exempt from Federal income taxes on their base salaries, but this is true only for employees who stay overseas at least 18 months. Further, this reduction in taxes is weighed in the employee's mind against a number of factors that deter his going overseas. Contractors should be permitted much greater flexibility in the payment of salaries if they are to attract the kind of employees required to perform AID work in a competent manner.

We offer three possibilities as alternative ways to improve the present provision. First, the contract could provide that salaries that fall within the current "going market rate" will be acceptable.

Second, the contractor could be required to submit a manpower budget in which salary rates as well as man-years are estimated. If this budget appears reasonable, it should be approved and the contractor permitted to pay salaries accordingly. This alternative was urged upon the Office of Contract Relations by the ICA Management Staff some time ago, but rejected. Third, if a percentage figure is to be used it should be increased to, say, 115% and, even more important, should be applied to the total salary cost to be incurred for all employees under the full term of the contract, so as to permit the contractor flexibility with respect to the payment of individual salaries.

(2) Clearances for Employees. We speak here, not of security clearances, but of clearances for suitability. The present ICA practice is not only too slow but non-productive. After the Washington technical divisions review the personnel data, the papers are forwarded for country mission review and host government review. The process often takes many months, and many employees make other commitments in the meantime. The final result is to approve the great majority of the personnel originally proposed but only after long delay.

The whole process loses sight of the fact that one reason for using contracts is the contractor's presumed ability to get people on the job more quickly. "Competence" in a contractor means, among other things, competence in judging and selecting employees. We recommend that suitability clearances be eliminated, except where the country mission director is unable, after patient effort, to persuade the host government

that it is much better to rely on the judgment of the contractor and hold him responsible. Host governments tend to look to the number of degrees and underestimate more important qualifications.

(3) Supervisory Trips. Many, if not most, ICA contracts provide that the contractor may not make more than one supervisory trip per year to the country of operations without advance written approval from the host government, the country mission director, and ICA Washington. Precisely the reverse would be a much more sensible policy. Contractors should be required to make enough supervisory trips to assure themselves that the work is going forward as well as possible, that their field staffs receive adequate headquarters support, and that breakdowns are anticipated and avoided so far as possible. To anticipate that contractors will take junkets at government expense in the name of supervision is to let one's fears overcome one's judgment. The occasional contractor who becomes guilty of such practices can be denied future business.

(4) Fee Formula. ICA has still not developed any fee standards to guide its contract negotiators. The General Accounting Office criticizes this deficiency in its March 1961 report and recommends that ICA adopt fee range schedules considered fair and reasonable for the various types of services procured. ICA has agreed with the recommendation, but it notes that because of the wide range in types of work and the fact that work is performed in many foreign countries developing fee standards presents a complex problem. If contract operations are to be

decentralized to country mission directors and devolve upon host governments, the need for standards becomes more urgent if fair and reasonable fees that are comparable for comparable services are to be paid. We doubt that the work of the foreign assistance program is all that unique. AID can draw on the fee schedule experience already developed by the Department of Defense, General Services Administration, Atomic Energy Commission, and National Aeronautics and Space Administration. Valuable contributions to this study can be made by professional associations such as the Association of General Contractors, American Society of Civil Engineers, American Institute of Architects, and National Association of Professional Engineers.

In determining the fee formula, we recommend the following basic policies: the principal commodity purchased with the fee is institutional responsibility, skill and management; and the objective is to secure the best qualified firm available to perform the work. These policies should not be sacrificed in order to pay a lower fee; the fee is small in comparison to the total cost of the work, and any saving in fee cannot offset the disadvantages which result from employing a poorly qualified firm.

(5) Reports and Information. Present ICA contracts specify that all reports made by the contractors shall be treated as confidential and may not without ICA's written approval be made available to any person, institution or government except as provided in the contract. We have been told that the practice is to deny contractors' requests for approval of distribution of technical reports even when they contain no information of a confidential nature or political significance. Apparently the

reason for this policy is a suspicion that contractors will use their reports to obtain additional contracts. Here again, we believe the policy should be to encourage what this prohibits. The contract should, of course, require the separate submission of information touching on security problems. The widest dissemination of all other reports can only promote the success of AID programs.

As we have explained in Chapters Two and Four, AID should encourage contractors to seek new business. Contractors perform a service for foreign assistance when they help host governments to recognize some of their needs and the fact that AID may be able to help satisfy those needs. It is no problem for AID to refuse an overseas request for assistance when it thinks the request unwise; the program, of course, is doing that all the time.

(6) Personnel Allowances Overseas. The Departments of State and of Defense, under the eye of the Budget Bureau, periodically review the special conditions U.S. employees overseas must encounter, and provide for allowances in addition to base salaries to enable the employees to cope with such special conditions. This is the reason for quarters allowances, and home leave privileges in addition to annual leave. Some 35% of the employees overseas who now work on ICA programs (not counting the employees of Participating Agencies who constitute another 10%) are contractor employees. The employees of contractors face the identical conditions that are faced by U. S. employees, and in many instances they work side by side. Yet contractors have had to fight to win one grudging concession after another, and most of them are still not eligible to receive for their employees education allowances (although university contractors

receive this), separation allowances, and others. Quarters allowances and overseas differential are usually permitted, but cost-of-living allowances almost never are. (Incidentally, the presumed uniformity expected to result from centralizing contract responsibilities in a single office has not prevented the existence of widespread non-uniformity in the treatment of individual contractors and classes of contractors, and much of this is unavoidable or even desirable.)

If we are right in anticipating a steady growth in the use of contracts in the AID programs, it will be increasingly difficult and unwise to deny appropriate allowances to contract employees overseas.

(7) Tying Overhead Reimbursement to a Maximum Percentage of Overseas Basic Salaries. From time to time, ICA officers become aware of one or another conceivable contingency that might favor a contractor and increase the cost to the Government. As each contingency is identified, new restrictions are devised in the standard provisions to guard against it. One contractor has remarked that this is as though an automobile repair shop, every time a car was brought in for repair, regardless of the difficulty, proceeded to tighten the steering wheel.

A case in point is the relatively recent provision that reimbursible overhead may not exceed a stated ceiling percentage of the total base salaries paid to fulltime employees overseas. This usually makes it impossible to reimburse the unavoidable overhead expenses that must be incurred before any substantial number of employees can report overseas. Contractor resentment of this limitation is increased by the

fact that long delays in clearing personnel are often the responsibility of ICA itself, but the delays nevertheless reduce the reimbursible overhea Overhead is, of course, reimbursible within the stated limits no matter when incurred, so long as it is after the contract is signed, but this formula frequently makes it impossible to obtain full reimbursement for overhead expense that is entirely reasonable.

(8) Miscellaneous. Similarly, the standard provisions create needless problems and delays by requiring numerous written prior approvals before the contractor may take action; contain drastic limitations on the time that contractors may spend in orienting employees for work overseas (on the contrary, pressure should be put upon contractors to provide more adequate orientation, and this takes time); refuse to permit automobiles to be shipped for employees who are to stay less than one year, but a ten-month employee may be almost helpless without a car in most of the countries concerned, and no provision is made for the mission director to make available transportation from a car pool; retain for ICA the right to terminate a contract without advance notice to the contractor, when formerly the practice was to require 60 days' notice and even recently the practice required 30 days' notice; and impose low limits on lump sum cash reimbursement for annual leave not taken overseas, although many employees (since they are not entitled to home leave under present contracts, and since they may find their employment suddenly terminated) prefer to take just enough vacation leave overseas to maintain wrking efficiency.

We believe we have come to understand why contractor criticism is so unanimous and so severe - it is deserved.

Some Principles to Guide Revision of the Standard Provisions

We recommend that AID give high priority to revising the standard provisions developed by ICA. The revisers should study the forms in use by the other government agencies we have referred to in various places. Most important, AID should invite various groups of contractors, as ICA did with the universities, to assist it in developing contract provisions that are fair and reasonable to both parties. We suggest also the following guiding principles:

A. The controlling principle should be to come as close as possible to developing standard provisions that become virtually non-negotiable because they will strike most people as reasonable. One of the major reasons for doing this is that this single step can immensely facilitate the decentralization to country mission directors and host governments of the negotiation and signing of most of the contracts. This is true because, if the boiler plate needs little discussion or revision, the parties to the contract need merely prepare two or three pages that will define the scope of the work, indicate the time period of the contract, state the fee to be paid, and cover any special problems unique to the particular contract. It is the boiler plate that today produces the time-consuming haggles in contract negotiation.

D. It is a sound principle, as the Atomic Energy Commission has discovered, to provide for accepting the personnel, accounting, purchasing, and other policies of contractors to the fullest extent consistent with basic governmental requirements.

C. In spelling out the reimbursible overseas allowances for contract employees, the general purpose should be to authorize exactly the same - neither more nor less - allowances that the Department of State and the Budget Bureau have found to be appropriate for U.S. employees overseas. This will avoid creating morale problems among employees, but even more important, few contractors will even ask for any change in the standard provisions on allowances if told that this is how the determination of allowances was arrived at.

The Federal income tax exemption that many overseas contract employees receive is probably more than counter-balanced by the greater insecurities of tenure they must endure and by the fact that most contractors cannot give the career-promotion protection to employees stationed in far away places that the U.S. Government can give to its employees.

The revisers should also consider whether fixed-price contracts cannot be used in a far larger number of cases in lieu of cost plus fixed-fee contracts. The greatest advantage of the fixed-price contract over the reimbursement contract is that it very substantially reduces the number of "contract actions" the agency must perform after the contract is signed, and equally substantially reduces the paper work to be

performed by the contractor to document reimbursement vouchers. A fixed-price contract requires a reasonably firm estimate of what the total cost is likely to be, but this can be computed for a very large number of personal service contracts as follows: Characteristically, the ICA contracts for personal services will require the contractor to provide so many man-months of service in stated areas over a stated period of time. On the basis of past experience, it is not difficult to compute the factors that reveal what the fixed price should be in such a situation. In most cases, it will cost the contractor, in costs of all kinds, approximately $20,000 to $25,000 per man-year to maintain an employee overseas. A study of the experience of the last few years should reveal the figure appropriate for this computation. It then would remain merely to multiply the factor by the man-years required and add a reasonable amount for contingencies. At least, this is worth studying; we believe it can substantially reduce the work load for everybody.

Grants have been used effectively in other Government agencies to support research in educational and non-profit institutions. The National Institutes of Health, the Atomic Energy Commission and the National Science Foundation have made effective use of the grant. The Grant instrument has the advantage of permitting reasonable administration without detailed and onerous controls. We recommend that ODRA explore the possibilities of this instrument so that AID may be free to choose the tool most appropriate in each situation.

Similarly, AID should study the advantages of the Participating Contracts, in which both parties jointly participate in the financial support of a project in which both have an interest. We suspect, incidentally,

that every university contract is a participating contract since universities receive no fees and no contractor can ever be reimbursed for all his actual expenses under a so-called cost reimbursement contract - if only because many unavoidable expenditures are simply non-reimbursible under U. S. Government law or policy. The amount of financial support by the two parties may range from equal amounts to percentages of 60-40, 70-30, 80-20-, etc. Many foundations and other institutions would welcome such contracts.

We also recommend a much greater use of the pre-contract contract. This is a small contract with a selected contractor to enable him to send a representative or two to the host country to study the local situation and help work out a realistic contract in the appropriate local context. The universities have demanded and received this device as an almost regular practice, but it is so sensible that AID should voluntarily extend it to many more situations. This becomes even more essential as country missions and host governments take over most of the contracting.

ICA policy today forbids the awarding of a contract to the firm that has already made a preliminary survey for the particular operation, except in very rare circumstances. This is another policy that prohibits what ICA should encourage. By the time that the host government and a contractor have completed making a preliminary study of what is needed in a major operation, the two should have arrived at an invaluable understanding of each other and of what must be done. The Office of Contract Relations feels that contractors will "build themselves up big jobs"

in the preliminary survey if they are thereafter permitted to accept the contract for operations. We see no reason why AID should have so little self-confidence in the ability of its Mission Directors and Regional Assistant Administrators to see through this dodge where it is attempted. There is, however, one situation in which the policy is sound (and from which it has been inappropriately generalized): On major construction projects the contract given to architects and engineers for drawing up designs and specifications should almost always be given to a separate firm from those invited to submit competitive bids for construction.

The Uses of Advisory Committees

This may be a good place to interject the fact that the universities banded together some time ago to force ICA to modify the boiler plate provisions in university contracts. The universities were able to exert sufficient pressure upon ICA to compel it to confer with a university committee and to hammer out in a long series of conferences a much more acceptable boiler plate for university contracts. As one result, university contractors are today noticeably less bitter than they were and less bitter than any other contractors. Even this experience, however, was not able to persuade ICA to undertake similar conferences with representatives of other contract groups, or to extend to any noticeable degree to other contractors what the universities were able to convince ICA were desirable contract provisions. Reading the standard ICA university contract today is to observe a marked difference in tone between it and the contract ICA uses with non-profit foundations and commercial firms -

and the university contract forms still need substantial revision along the lines discussed in this chapter. This failure to confer with the other contractors concerning the boiler plate, after years of widespread protest, speaks eloquently of what is wrong.

AID's Division of Contract Standards should seek the participation of contractors and potential contractors in ~~developing basic~~ policies concerning boiler plate, standard contract policies, and negotiating procedures. For this purpose, three continuing advisory committees may prove useful: one of commercial contractor representatives, one of university representatives, and one of other non-profit contractors. The price of having effective advisory committees, however, is to consider the advice seriously and sympathetically. The committees can be a fruitful means of cooperation, as they have been in other government agencies.

A New Procedure for Contractor Selection

For some time after the Office of Contract Relations was established, the function of selecting contractors for specific contracts was assigned to the technical divisions. Given the absence of a Contractor Index or any substitute for it, technical divisions would frequently take from 6 to 12 months to locate a contractor. The Office of Contract Relations quite properly objects to being blamed for delays over which it could exercise no control.

On March 31, 1960, ICA issued Policy Directive 12 to establish a new procedure for selecting firms to perform architectural, engineering,

other professional services. It provided for establishing a three-man panel to do the selecting, with the Director of the Office of Contract Relations as Chairman. The director of the responsible technical office and the Deputy Regional Director for the Geographic Area were the other two members. If the panel was unanimous, the decision was final. If the panel could not reach unanimity, the problem was to be forwarded to the Deputy Director for Operations "who will consult with interested offices and then make the decision." This is the procedure followed today. (A high officer of ICA whom we interviewed insisted to us that the Regional Directors of ICA have complete authority and responsibility for major administrative actions in their Regions, if they are but willing to make a decision and assume the responsibility. It may be that some Manual sections say so; we have not tried to find them; but a long series of policy directives such as the one just described reveals how meaningless any such manual sections have become. As we said above, the administrative organization actually practiced by ICA makes the heads of most major offices fully coordinate and only the Deputy Director for Operations can make a decision stand.)

The present procedures under Policy Directive 12 still result in long delays. We have recommended in Chapter Three that complete responsibility for contractor selection be placed in the same officer who is to carry responsibility for the other six major steps necessary for each contract in the four Regional Assistant Administrators and in the head of ODRA. These officers should find the selection made much easier by the work to be done by ODRA.

Contract Administration

The Director of the Office of Contract Relations believes that ICA has done a poor job in the past in seeing to it, after a contract is signed, that the contractor delivers full performance, and in cooperating with the contractor to remove obstacles from the path. He was instrumental in issuance of the new Manual Order on September 1, 1959 to strengthen contract administration. The new Manual Order (1241.1) does spell out more clearly the importance of contract administration, and does make the director of the country mission responsible for keeping in touch with contract performance for all contracts carried out in his country; but it still divides the Washington responsibility for contract administration between the technical divisions and the Office of Contract Relations. We have recommended in Chapter Three that full responsibility for contract administration and for final contract evaluation be placed squarely upon the same officer that will carry responsibility for the five other major steps we have listed on page 28 that are required for each contract.

Most contracts call for work in a single country. The country mission director, we believe, can best perform the tasks of contract administration, which include giving all required AID approvals or disapprovals, keeping informed on progress, helping to resolve unexpected contingencies, assisting the contractor's performances and evaluating contractor performance and contract results when the work is completed. The directors will, of course, need to call upon the lawyers and fiscal experts for assistance when problems in their fields are raised.

Some contracts may require little or no work in any country overseas, and administration of these contracts should be the responsibility of the head of the office that made the contract. The technical divisions, as staff service offices, should, of course, be available and be consulted so that they may assist the line officers in administering contracts, as should all the other staff service offices, but contract administration is too important a step to permit divided responsibility.

Within the last three or four years, there has been a steady flow of responsibilities for contract administration, as for other contract actions, toward the Office of Contract Relations. We think it most unwise that the Geographic Area Divisions be removed as they now are from intimate consultation with contractors in the effort to promote contract performance. Even the best planned and best written contract must be able to be molded to changing conditions, and this is a skilled performance that can be expected only from people who are intimately familiar with the needs of country programs.

The Progress Reports of the Office of Contract Relations report in terms of numbers of "contract actions" rather than numbers of contracts negotiated or signed. Most of these "contract actions" refer to problems of contract administration. Clear assignment of those responsibilities to the mission directors and the head of the five major operating offices in Washington will greatly reduce the work load of the contract negotiators.

A word should be added about major construction projects. People have often urged ICA to ease its burdens by turning over to the Bureau of Public Roads, the Corps of Engineers, and other such bureaus the responsibility for entering into and administering major construction contracts on behalf of ICA. Although we share with the Office of Contract Relations the view that AID cannot run away from its contract responsibilities by giving contracts to prime contractors and asking the prime contractors to award a number of subcontracts, we feel, nevertheless, that ~~in the case of~~ major construction projects, such agencies as the Bureau of Public Roads, Bureau of Yards and Docks, Corps of Engineers, and the Signal Corps are better equipped than is AID to handle the total contract operation for the particular project involved. This would be merely another use of the Memorandum of Understanding with a Participating Agency that we have already explored in Chapter Four. A similar use of prime contractors should be explored with the universities because of the special requirements of educational programs.

Transition From the Old to the New.

We have already cited Mr. Ohly's discussion of "Systems of Operation in Technical Assistance". We now call attention to his statement, on page 79 of that report, of the importance of making a smooth transition from the old to the new in the case of any reorganization, in order to avoid loss of continuity in current operations. The foreign assistance program has been reorganized almost every two years. Operations simply must not be permitted to grind to a halt while new offices are established and new responsibility assignments made. As Mr. Ohly says, "Any basic changes in systems of operation must be effected, and any of the needed surgery performed, with

...l consciousness that history will not stand still during the opera- and that the patient, while being revitalized and rebuilt, must at all times be able to carry on his most essential work".

If the contract function is to be reorganized, the appropriate officers of AID should agree on time schedules for the transfer of responsibilities.

CONCLUSION

We have demonstrated, we believe, that the contract operation in the foreign assistance program is manageable - but it must be managed.

If the host governments are to be given technical assistance in making contracts that AID will finance; if the mission directors are to do most of the AID contracting, and receive the support they will need from Washington; if the major operating units are to do the contracting and participate in the preparation of agency-wide contract standards and policies; if a large cross-section of the nation's institutional resources are to be brought into the service of the program; if all these things are to happen and mesh together with reasonable efficiency, then the Administrator of AID must himself determine that this is the kind of contract operation he wants, and lead the Agency toward achieving it.

We conclude, therefore, as we began. The device of a contract between the Government of the United States and private or public organizations can become a powerful instrument for achieving the

nation's purposes in foreign assistance. Boldly conceived, sympathetically operated, properly organized and controlled, the contract can become a wide channel for sluicing the skills and strengths of a multitude of private and public agencies into the service of the Government in one of the most difficult operations the Government must carry on in the Decade of Development: helping the underdeveloped nations to reach the point of self-sustaining economic growth.