

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON 25 D. C.

OFFICE OF
THE ADMINISTRATOR

May 19, 1964

The Honorable Gale W. McGee
United States Senate
Washington 25, D. C.

Dear Senator McGee:

We have completed a review of your report to the Senate Committee on Appropriations on Personnel Administration and Operations of the Agency for International Development. Our detailed comments on each of the specific recommendations are attached. A copy of the Agency's comments is being sent to the Committee also, as indicated in the attached letter to Senator Hayden.

I am most appreciative of your personal efforts in connection with these hearings and of the comprehensive and constructive approach taken in your report on problems being encountered in the administration of the Foreign Assistance Program. Our senior management officials have given your comments and recommendations very serious consideration.

You will note in our attached comments that we have taken many constructive steps along the lines recommended in the report. In other instances we consider the steps taken to be consonant with the objectives of your report.

As you know from our personal discussions, I have placed considerable emphasis on improving the administration and management of our program. The special hearings held by the Committee provided an excellent opportunity to discuss the complexities of our personnel and related problems and to get the benefit of the ideas and suggestions from the members of the Committee for improving our operations.

We feel sure that you will agree that the attached comments which indicate the improvements already made and being actively pursued will do much toward improving the Agency's operations. We appreciate the stimulation your report has provided to our management improvement program and shall be pleased to furnish any additional information which you may consider necessary.

Sincerely yours,


David E. Bell

Enclosure

AGENCY FOR INTERNATIONAL DEVELOPMENT

COMMENTS AND REPORT OF ACTION TAKEN
ON THE CONCLUSIONS AND RECOMMENDATIONS
IN THE REPORT OF SENATOR GALE W. MC GEE
ON PERSONNEL ADMINISTRATION & OPERATIONS OF A.I.D.

INDEX

| <u>Recommendations</u> | <u>Subject</u> | <u>Page Reference</u> |
|------------------------|--|-----------------------|
| 1 | Program Evaluations | 1-2 |
| 2 | Coordination of Economic and Military Assistance | 3-4 |
| 3 | Use of Grants vs. Loans | 5-6 |
| 4 | Overstaffing in Technical Assistance and Related Administrative Positions | 7-8 |
| 5 | Need for Greater Contributions by Host Countries to Projects | 9-10 |
| 6 | Loan Programs Understaffed | 11 |
| 7 | Excessive Long Term Loans at 3/4% | 12 |
| 8 | Public Law 480 Program Activities | 13-17 |
| 9 | Additional Professional Employees Needed - Especially Controllers and Auditors | 18-19 |
| 10 | Cumulative Effect of Past Mistakes, Reorganizations and Lack of Stability | 20 |
| 11 | Lack of Coordination Resulting from Decentralization | 21-22 |
| 12 | Areas Indicating Needed Improvements in Personnel Administration | 23-25 |
| 13 | Weaknesses in Area of Contracting Services | 26 |
| 14 | Excess of Local Employees | 27 |
| 15 | Budget Presentation of Program and Administrative Personnel | 28-29 |

RECOMMENDATION 1

Summary of Conclusions:

"One of the most critical needs of the Agency is for more objective and effective evaluation of its programs and projects."

Recommendation 1.a.

"It is recommended that the Agency take the necessary steps to equip itself with a field evaluation and survey group equal to the task of conducting adequate, objective evaluations -- as a constructive aid to management and the elimination of waste and ill-conceived projects. It is recommended that the Committee follow the action taken in this regard."

Agency Comment

A.I.D. is taking a number of actions to strengthen and expand its mechanisms for evaluating the effectiveness of programs and to insure that projects and activities are achieving the development goals set for them, are ably administered and are furthering U.S. foreign policy objectives. These actions include:

- a. An Operations Evaluation Staff has been established in the Office of the Administrator. Under the supervision of the Deputy Administrator, this Staff is the focal point for planning, arranging and conducting periodic evaluations of Agency operations. These evaluations will place primary emphasis on the performance of mission and headquarters staffs in carrying out approved policies and programs in the aid receiving countries.

The AID Operations Evaluation Program is designed to meet the Administrator's need for an internal mechanism to provide objective assessment of the operational performance and effectiveness of the USAIDs and headquarters in carrying out approved programs projects. This "executive review" program, implemented by carefully selected evaluation teams, will encompass all aspects of AID's operational performance, in addition to an appraisal of program objectives, suitability of projects, loan/grant ratios, and overall responsiveness of programs to current U.S. goals and objectives.

These objectives are to be met by establishment of a planned program of comprehensive, on-site "Operations Evaluations" conducted in the USAIDs by teams of senior officers assigned by AID/W. These evaluations will focus on AID's progress in achieving previously approved goals and targets in respect to the aid-receiving countries. Each "Operations Evaluation" will result in reports and recommendations as guides for immediate management action by the responsible officials.

RECOMMENDATION 1 Continued

Operations Evaluations will not substitute for or lessen the responsibilities of USAIDs, Regional Bureaus and AID/W offices for self-evaluation measures and management improvement actions in the activities for which they are responsible. Corrective action to comply with recommendations resulting from an Operations Evaluation will be the responsibility of the affected USAID Director and regional Assistant Administrator.

- b. The President has indicated his intention of providing for an external evaluation of the effectiveness of assistance programs through the creation of a bi-partisan General Advisory Committee on the Foreign Aid Program. The Committee members will be men and women of outstanding reputation drawn from the ranks of the U.S. private community. This Committee will be called upon to provide objective and informed evaluations of A.I.D. programs in key countries.

The above actions are in addition to an expansion of the Agency's present comprehensive internal audit system which reviews program implementation and administrative operations in addition to the usual financial examinations.

RECOMMENDATION 2

Summary of Conclusions:

"--- where the United States --- contributes --- the greatest portion of a country's budget in its fight against communism, it appears to do so --- without the coordination and safeguards necessary to prevent --- corruption and the diversion --- of our assistance into the wrong hands. --- While the responsibility for perfecting and insisting upon such safeguards is certainly not entirely within the responsibilities of A.I.D. personnel, the Administrator of A.I.D., by law, is cloaked with coordinating authority for military and economic programs. If, in practice, as well may be, the A.I.D. Administrator is not in a position to enforce adequate control to assure effective use of our aid, the administration should devise whatever steps are necessary."

Recommendation 2:

"It is recommended that a general review be made of this whole problem area and that the necessary steps be taken to correct it. Further, it is suggested that the committee request the Administrator of the Agency to report back to the committee, within 3 months of the date of this report, furnishing the action and steps that are being taken in this regard."

Agency Comment:

This recommendation relates to military force maintenance support and to economic program assistance.

Force maintenance support provided under the Military Assistance Program is directly administered by the Department of Defense. Supplies financed by the Military Assistance Program are procured by the U. S. armed services and are supplied to the recipient defense ministries through logistical, directly-administered channels. MAP does not make use of commercial markets, bank financing or host country budget controls, although final use of supplied material is the responsibility of the recipient Ministry of Defense. The Department of Defense procures directly, ships, and delivers by its own order, and supervises the introduction and use of MAP-supplied material.

This system is very effective for supplementing and improving the defense capabilities of recipient countries and is a natural outgrowth of the procurement and supply system of the U. S. armed forces. Only in those situations such as Korea, Vietnam and Laos, where a radical expansion of the activity of the Defense Ministry has been involved, under combat conditions and with military assistance financing a very large share of operating costs, does this system run into substantial difficulties. In these situations where an initially weak administrative structure has had an impossible expansion forced upon it, the danger of diversion and corruption would have been far greater were it not for the extensive involvement of U. S. military advisors, trainers, and administrators in the supply and administration of MAP-financed material. The monitoring and counsel provided not only assures proper use of U. S. supplied material, but greatly strengthens the military administration of the recipient country.

RECOMMENDATION 2 Continued

Economic program assistance, in contrast to MAP and to economic project assistance, is the provision of financing in connection with the general situation, including filling a balance of payments gap, sustaining and stabilizing an economy strained by common defense efforts, or providing assistance necessary to achieve a general policy purpose. During the past year A.I.D. has conducted a general review of the provision of program assistance and has published new manual orders establishing policy criteria and review and approval procedures for such assistance.

The basic principle followed by A.I.D. in the administration of assistance of this character in order to avoid corruption and diversion, is to use the existing systems for the control of resources in the recipient country and, most particularly, to make full use of the automatic controls provided by commercial transactions in the open market. A.I.D. implements the Congressional mandate to utilize commercial channels of trade in program assistance by financing private imports into aid recipient countries. While such transactions have the protection of competitive market forces and cooperating country controls, they are also surrounded by a safeguard of A.I.D. Regulations, which impose maximum price rules, standards for contracting, and require effective utilization of commodities. In addition A.I.D. limits its programs to essential commodities and requires the borrower/grantee to permit audit to ascertain full utilization and to insure that aid goods are not reexported. Compliance with these rules is obtained by requiring the aided countries and suppliers to agree to make appropriate refund to A.I.D. for violation of its regulations. Moreover, the financing of private transactions is arranged through the facilities of U. S. banks, which examine documentation prior to payment. Further examination is made by the A.I.D. Controller's Office in post audit. No system, in practice, offers perfect defense against error and fraud. The system employed by A.I.D. is no exception to this principle but it has enabled the Agency to generally insure the satisfaction of U.S. procurement standards since Marshall Plan days and has resulted in refunds of more than \$430 million in program and project assistance. The A.I.D. Controllershship organization is responsible for follow-up on program assistance as it is for other A.I.D. assistance, to assure that assistance was provided within the terms approved and in accordance with law and that commodities financed were not diverted, were eligible for A.I.D. financing and were constructively used within the recipient economy.

Sparing use is made of grant program assistance by A.I.D. It is required in half a dozen countries, particularly including Korea, Vietnam, Laos, and Jordan, which are bearing common defense burdens larger than their economies will support. This form of assistance is also provided on a loan basis to countries which have prepared comprehensive development programs and investment plans with which A.I.D. concurs and which we have agreed to support. In India, Pakistan, Turkey, Colombia and Chile a substantial part of A.I.D. assistance is provided through commodity financing under program loans in support of the country's development program.

RECOMMENDATION 3

Summary of Conclusions:

"---there is another too common situation to which A.I.D. personnel are a party but over which they do not have full control. This involves United States overindulgence of certain countries in our aid giving. It has taken the form of outright grants where loans would have sufficed; furnishing the full costs of technical assistance projects, when the recipient country could well have afforded to pay the local, or even total, costs; making little or no effort to obtain any interest on many huge deposits in foreign banks; and making grants and exceedingly soft-term loans to countries well on their way to prosperity.---"

Recommendation 3

"It is recommended, first, that the top policymaking officials and bodies in the executive branch take precautions against creating conditions or an atmosphere which permits a prodigal attitude in the disbursing of U.S. resources in the name of foreign aid; secondly, that the A.I.D. organization perfect procedures of review, staffed with men of experience and common sense, which will reduce to a minimum grants, soft-term loans, and other assistance where the circumstances do not warrant it; and, finally, that the Appropriations Committees of the Congress consider placing restrictions and conditions on appropriations which will impress on A.I.D. that the funds appropriated are not to be committed indiscriminately, but with a sense of frugality."

Agency Comment

The President has repeatedly emphasized his policy that foreign assistance should be used as economically as possible to achieve U.S. policy objectives, and the Administrator has taken precautions to insure this result.

In this connection we would like to point out:

1. A.I.D. grants have declined as a share of economic assistance from 98.7% in 1953 and 76.4% in 1958 to 47.0% in 1962, and 41.6% in 1963 and 31% projected for 1965. This trend will continue.

2. Fourteen countries received \$420 million in grant support in 1960 for which no supporting assistance is proposed for 1965. Total grants other than for technical cooperation were \$1,121 million in 1960 compared to \$654 million in FY 1963 and about \$370 to \$400 million anticipated for FY 1964 for total supporting assistance and contingency fund grants.

RECOMMENDATION 3 CONTINUED

3. The Agency has scrupulously followed the requirements of section 611 of the Foreign Assistance Act, as amended, which pertains to the "Completion of Plans and Cost Estimates" before agreements are executed in excess of \$100,000.

4. A.I.D. withheld \$240 million of development funds from obligation in 1963, mainly because potential recipients failed to qualify under A.I.D. criteria for self-help and project evaluation.

5. The proposed Foreign Assistance Program for fiscal 1965 is based on conservative estimates of the minimum amounts needed to meet priority requirements both for economic assistance and for military assistance. The amounts proposed are substantially less than the Administrator feels would best serve U.S. interests if optimum policies and conditions were to be found in recipient countries, but is based on a realistic estimate that in fact a number of recipient countries will find it impossible to take self-help measures which we, and frequently their own leaders, agree are desirable and essential if best use is to be made of U.S. assistance.

We do not believe additional restrictions and conditions on our appropriations are necessary or desirable. The authorizing legislation now provides strict and sound policy guidance and criteria.

With respect to the question of interest on deposits the U.S. Treasury Department as a matter of policy treats all U.S.-owned foreign currencies in all countries, where there are no restrictions on premature withdrawal, as fungible assets for the purposes of determining how much can be placed in interest bearing accounts. Treasury follows the policy of attempting to place on time deposit local currencies in excess of a thirty-day supply. A.I.D. has instituted action to require USAIDs to report to AID/W monthly any funds available for deposit in interest bearing accounts for referral to Treasury for appropriate action.

RECOMMENDATION 4

Summary of Conclusions:

"The facts indicate that numerous field missions are overstaffed. -- and that corrective action was being taken. --"

Recommendation 4.

"It is recommended not only that the operating personnel of AID continue their efforts of review and the elimination of unnecessary positions in the Agency and field missions, but that independent surveys and objective evaluations be conducted for this purpose. It is suggested that AID be requested to report back to the committee within 6 months as to the progress made in this regard."

Agency Comment

The Agency has taken a series of positive actions, beginning in July 1963, to assure that only essential personnel are assigned to the overseas Missions.

One of the key features of the program is to require each year an advance plan of specific actions to be taken at each level of the organization to improve Agency operations. These plans provide concrete management goals for the Agency against which improvements and economies can be measured. In addition, through a system of periodic reports, the various efforts being made throughout the Agency to increase productivity and operational efficiency are coordinated; duplication of effort is eliminated; and maximum application of the benefits derived from improved operations is insured. Thus, the Agency now has a continuing action program for economizing, simplifying, and accelerating its operations:

1. A major cutback in employment is underway. The Agency is determined to reverse the historical upward trend in staff levels and to find ways of doing its job with substantially fewer personnel. To achieve this objective, A.I.D. is taking the following actions:
 - a. Critically reviewing each country mission and each Washington unit to eliminate every job of marginal value.
 - b. Eliminating projects and activities which are not of high priority.
 - c. Steadily expanding the use of facilities of other government agencies and the private U.S. community in lieu of direct A.I.D. development and execution of technical assistance projects.

RECOMMENDATION 4 Continued

As a result of this new and firmly enforced Agency policy, total employment is being reduced this fiscal year and further significant cuts will be made in FY1965. Staffing will be decreased from 16,782 as of June 30, 1963 to 16,500 as of June 30, 1964. Between June 30, 1964 and June 30, 1965, A.I.D. staff will be further reduced by an additional 900 U.S. and foreign national employees. Thus in a period of two years, total A.I.D. employment will be reduced by about 1200 employees. Anticipated employment as of June 30, 1965, is 15,600 -- 6,480 U.S. nationals and 9,120 local employees.

2. A comprehensive survey of the Agency's manpower management processes has been undertaken by A.I.D. with the assistance and cooperation of the Bureau of the Budget. This survey has now been completed, and we are now putting into effect new methods and approaches to increase the effectiveness of manpower programming, to tighten internal controls on employment and to redesign the employment statistics system in order to make it a more effective management control device.

RECOMMENDATION 5

Summary of Conclusions:

"One of the principal factors which has contributed to our ill-advised or overly ambitious projects is the fact that the U. S. too frequently pays practically all the costs of such projects ... Accordingly it would seem that there should be a requirement as a condition to the initiation of technical assistance projects in most instances, that the recipient country contribute a significant part of or all local costs in some form, and in many countries, the full or major costs of the entire project."

Recommendation 5a.

"It is recommended that the Agency, as a condition to approval of technical assistance projects, set up procedures requiring that recipient countries make substantial contributions to the local costs of such projects in some form, and that a higher percentage of countries pay the complete costs, or a major percentage thereof, and that A.I.D., in its budget presentation to Congress, present estimates of recipient country contributions in each case to the local costs, and what portion of the total cost of each project such contribution represents."

Recommendation 5b.

"It is further recommended that the Agency report back to the committee on the feasibility of carrying out this recommendation any any problems involved. It is also recommended that the Appropriations Committees consider making this a requirement in a high percentage of all new projects."

Agency Comment:

We agree strongly with the sense of the report that technical assistance like any other assistance must be a joint effort if it is to be effective; that there must be evidence of keen recipient country interest in any major technical assistance project, and that there should be willingness and ability to contribute substantially to the activity and ultimately to carry it on. This is one aspect of self-help which is increasingly a crucial criterion in determining what assistance should be provided. This criterion is firmly established in Foreign Assistance legislation in that section 211 of the Foreign Assistance Act requires the President to take into account the willingness of the country "to pay a fair share of the cost of programs under this title."

RECOMMENDATION 5 Continued

A.I.D. requires, "In most cases, as a minimum requirement, [that] there should be a substantial host country contribution and an agreed plan for the absorption of the activity into a regular host country program as a tangible demonstration of good faith and self-help to assure the effectiveness of the aided activity."

A.I.D. normally seeks a maximum local currency contribution from the local government in connection with each project. In most major countries receiving technical assistance, we have an arrangement whereby the recipient country deposits funds in a U.S. administered trust fund account to pay for the direct support costs of U.S. technicians and of participant training.

The individual project sheets included in the Congressional Presentation carry a table which gives recipient country contributions when these are made from currencies arising from U.S. commodity assistance programs and earmarked for country use. The project narrative describes other forms of contribution by the recipient country, in monetary terms when this is appropriate.

RECOMMENDATION 6

Summary of Conclusion

"---the Agency was still very much in the process of completing the staffing and organization necessary to carry out the loan functions for which the Agency is responsible --- the [loan] program was understaffed in both numbers and experience, and that there was an insufficient appreciation of what was required to make a program of this magnitude work. It is --- inconceivable that a development loan operation of this size can be operated effectively with personnel who --- have little or no investment banking experience ---"

Recommendation 6

"It is recommended that continued high priority be given to the building of a better balanced loan staff, at both the Washington and field levels, and that every attempt be made to employ the services of an investment banker with outstanding reputation and abilities to head up the Agency's loan operation, with authority to take whatever steps are necessary to make it work with a high degree of professional proficiency."

Agency Comment

Action is already under way to strengthen our loan staff and to augment it where necessary in both Washington and field operations. The recently completed A.I.D. Implementation Project --- a hard internal look at program operations --- came up with the basic findings that more and better people were needed on the capital development side of our personnel ledger and that additional efforts must be directed at the implementation and monitoring of loan programs. Major studies of the loan operations of three regional bureaus have now been completed and recommendations designed to overcome operating deficiencies are now being implemented. We now have positions for 61 professionals to work on loan matters in the four Regional Bureaus in Washington and for 42 professionals in our overseas missions. To assist them there are 42 engineering positions assigned to the Regional Bureaus and 153 positions overseas. There are also lawyers, controllers and auditors assigned both in Washington and overseas who are available to assist our loan officers.

As a part of the Agency's recently inaugurated Management Improvement Program, we will initiate before the end of the fiscal year a comprehensive study to assess loan operation personnel needs for the next two fiscal years as the loan program expands and more loans enter the implementation stage.

The central staff office with primary responsibility for the development of Agency policy in the lending field is the Office of Development Finance and Private Enterprise. We have just appointed an Associate Assistant Administrator for Capital Development who has international banking experience and who will fill the role outlined by the Committee.

RECOMMENDATION 7

Summary of Conclusions:

"There are indications that the Agency has carried to excess the making of long-term loans at three-quarters of 1 percent interest, with long grace periods, and that certain countries have received such loans when more normal terms would have sufficed as well."

Recommendation 7.

"It is recommended that the Agency submit, at the time of the appropriations hearings, a list of all loans made at three-quarters of 1 percent, including the name of the country and the terms of the loans, together with a summary reflecting the percentage of such loans in relation to the total development loans made since the three-quarters of 1 percent interest loans were authorized; also, that the Agency be prepared to justify its action in reference to all loans made at the lower interest rate."

Agency Comment

In accordance with this recommendation, the Agency is submitting separately a list of loans made at $3/4$ of 1% interest and the summary, as requested.

A.I.D. policy has taken into account the ability to repay external debt to those countries that have shown progress toward self-sustaining growth or that have relatively good foreign exchange earning capacity. For example, recent dollar development loans to the Government of Israel, to the Republic of China, the Government of Thailand, to the Government of Venezuela, to the Government of Mexico, to the Government of Greece, and to the Government of Iran have all been made at rates higher than the legal minimum and maturities shorter than the legal maximum.

A.I.D. has pressed other free world countries to follow similar rules in their programs of lending for development and in April, 1963, the 12 countries in the Development Assistance Committee agreed that loan terms should be consistent with the debt-servicing capacity of the recipient countries, that terms should be more nearly comparable among donors, and that these aims should be met by liberalizing the terms of the harder lenders.

RECOMMENDATION 8

Summary of Conclusions:

"The Public Law 480 --- programs --- have been badly understaffed and given inadequate attention ---. While A.I.D. --- has done much to improve the overseas administration of these programs, a great deal more must be done ---"

Recommendation 8a.

"It is recommended, first, that the Agency make a concerted effort to correct the misconceptions held by many of the A.I.D. employees regarding the Public Law 480, Title I, program."

Agency Comment

A.I.D. recognizes the need for better understanding within the Agency and generally of the purposes and objectives of the Title I program. To increase employee understanding three training films are in preparation. These fifteen-minute films are designed to present graphically a general explanation of the P.L. 480 program, and give specific understandings of the Titles I and IV programs, the Barter program and the essentials with respect to the Titles II and III grant and donation food programs. The Food for Peace Newsletter is issued monthly containing current highlights of the programs in the various countries and made available to all personnel and prominent space is given to the various P.L. 480 programs in Front Lines, the Agency's internal semi-monthly newspaper for employees.

Official instructions on the Title I program are contained in M.O. 1142.1 which was issued September 30, 1963. A handbook is also in preparation covering P.L. 480 generally with detailed sections on each of the titles.

Recommendation 8b.

"It is further recommended that the Agency give the same consideration to Public Law 480, Title I, 104(g) loans as is given to development loans made from funds directly appropriated, and that a country-by-country survey be made to assure that the Public Law 480 programs are getting adequate and consistent attention."

Agency Comment:

Recent evolution and changes in the administration of the P.L. 480 program will help to assure that all aspects of it including section 104(g) loans get adequate and consistent attention. The planning, negotiation and implementation of "country use" sales proceeds for development or the common defense is explicitly an A.I.D. responsibility. This includes loans to American private enterprise in the country and loans and any grants to the cooperating government.

RECOMMENDATION 8 Continued

Because they derive from the sales agreement process and are a partial reflection of commodities already supplied, the section 104(g) loans differ in a fundamental fashion from A.I.D. dollar development loans. The approval of a dollar development loan is the approval of a transfer of resources from the U.S. to the recipient country. The corresponding approval in the P.L. 480 Title I picture is the approval of the sales agreement. The section 104(g) loan is provided for in that agreement and is a reflection of it.

Recommendation 8c.

"It is also recommended that A.I.D. be required to justify before Congress any grants made for economic assistance under section 104(g) of Title I, and any outright grants made with Public Law 480 currencies originally designated for U.S. uses, regardless of whether or not the benefitting countries happen to be so-called excess currency countries."

Agency Comment:

The authority to use a share of Title I currencies on a grant basis is extremely important to the usefulness of this program for foreign policy purposes. Occasionally a non-revenue producing activity is a critical element in a country program and the ability to provide some grant financing for it gives the United States an extremely valuable negotiating leverage. For example, a recent sale agreement with Brazil included assistance for the anti-Communist North-East program and one in the Sudan included a grant for expansion of the University. In both cases, inclusion of the grant was an important element in making the Title I sale a positive element in U.S. relations with the country.

In recent years, very sparing use has been made of the grant authority. Less than 5 percent of sales proceeds of FY1963 agreements are to be used for grants compared to a 30 percent level in previous years. This drastic drop is due in part to following a tighter policy and part of the fact that during 1963 it was not necessary to renew the large long-term sale agreements with India and Pakistan. In both of these countries local currencies freely available for U.S. use within the country greatly exceed U.S. expenditure requirements both in terms of cash on hand and for the more distant future, as large outstanding loans are repaid in rupees.

RECOMMENDATION 8 Continued

Recommendation 8c (cont.)

With one exception grants have not been made with P.L. 480 currencies designated for U. S. uses. The single exception in recent years has been the unique situation in Nepal where Indian rupees are acceptable in payment for local costs. Here A.I.D. has been able to substantially expand its development program without dollar cost to the U. S. by drawing Indian rupees under an allocation from the Bureau of the Budget for the payment of program local costs in Nepal. This arrangement has been made with the consent of the Indian Government.

All P. L. 480 grants are reported to the Congress semi-annually in the reports on P. L. 480 operations, and the terms of all new sales agreements are reported currently to the Agricultural Committees of both the House and the Senate. It is our intention to continue the current policy of making sparing use of the grant authority, using it only in those cases where a unique contribution to U. S. policy objectives can be obtained.

* * * * *

Recommendation 8d:

No A.I.D. comment is warranted.

RECOMMENDATION 8 Continued

Recommendation 8e.

"It is recommended that much greater emphasis be placed upon the use of title II and III food donation programs by using these operations as the basis for building toward community responsibility and self-help projects, and that, insofar as possible, they be made more than mere humanitarian projects through conversion into programs having a schedule looking to the overall improvement of the lot of the recipients to the point where they will be self-sustaining; and that the local governments be urged to assume greater responsibility in such projects and in the welfare of their people."

Agency Comment:

A.I.D. concurs in and strongly supports this recommendation and, in fact, has been directing its efforts towards making the "highest and best use" of the food resources both to serve the best interest of the recipients and of the United States. Some examples of these efforts are:

1. Increasing and continuing emphasis on Title II food for work economic development programs or projects both on a government-to-government basis and through the voluntary agencies.

2. Strong A.I.D. support of the Administration's request for an increase in the annual authorization for Title II programs from \$300 million to \$450 million.

3. The USDA Title III regulations issued November 6, 1963, provide that donated foods shall not be distributed as compensation or award for, or as a condition of the performances of services; however, this limitation permits the acceptance of voluntary services upon any public or any other non-religious activity which has been approved by A.I.D. A.I.D.'s implementing instructions to these regulations encourage the voluntary agencies to promote self-help activities.

During the Hearings before the Foreign Agricultural Operations Subcommittee of the House Committee on Agriculture on the extension of PL 480, administration witnesses indicated the intention to revise these regulations to provide that voluntary agencies are urged to promote self-help and community development activities on the part of the recipients.

RECOMMENDATION 8 Continued

Recommendation 8f.

"It is further recommended that A.I.D. conduct a country-by-country review to determine whether there is adequate personnel, both in numbers and in qualifications, to assure proper administration of these food programs as they are presently operating, and that adequate personnel be added to insure against serious diversion and confusion in these programs."

Agency Comment:

In August 1962, A.I.D. conducted a country-by-country review of its personnel resources in relation to the Food for Peace program. Following this review, 12 Food for Peace officers (that is technicians who have principal responsibility for the conduct of the Food for Peace program) have been assigned to as many countries. Further continuing reviews of the Food for Peace program indicated a need for additional personnel. There are currently 38 Food for Peace Officers or Assistant Food for Peace Officers serving in 23 countries and two are under consideration for assignment to two additional countries. In addition, in each of the other 79 countries or territories in which Title II or Title III programs are conducted, an employee of the USAID Mission, or in those countries or territories where we do not have a USAID Mission, an employee of the Embassy, Legation or Consulate has been designated as Acting Food for Peace Officer. These Food for Peace officers receive training in AID/Washington either prior to departure to their post of assignment or in connection with home leave. Consideration is being given, within existing budgetary limitations, to the assignment of Food for Peace Officers to additional countries.

Increased attention both as to staff time and audit coverage has been devoted to P.L. 480 Title II and III programs during the past fiscal year. This trend is expected to continue and has been planned for fiscal year 1964.

RECOMMENDATION 9

Summary of Conclusions:

"The facts indicate that there are a number of other program areas where additional employees are needed, namely, qualified engineers, capital development officers, investment guarantee personnel, economists, controllers, and auditors, and other specialists. The Agency indicated it was recruiting for these jobs and, to a great extent, the additional personnel would be offset by a cutback in personnel in the technical assistance and administrative areas, where there are indications of overstaffing. The facts did indicate a special need for additional controllers and auditors, ---. In a number of countries, the lack of sufficient auditors has resulted in serious delinquencies in conducting audits of a number of important projects."

Recommendation 9.

"It is recommended that the Agency carefully analyze the need for controllers and auditors on a country-by-country basis, and hire a sufficient number to do a practical and effective job."

Agency Comment

The Agency concurs with the recommendation and has already taken the following implementing steps:

1. Each Mission Controller is required to take an inventory of all unaudited workload. The Controllers are then required to make positive judgments and screen out of cumulative workload that portion which reasonably could be determined to have little or no audit potential in accordance with instructions supplied by AID/W.

2. Each Mission Controller is then required to weigh the remaining audit workload in terms of priorities and availability of staffing to permit better judgments on the use of available audit manpower. Mission Controllers are required to prepare annual reports on their audit plans for the ensuing fiscal year and to report semiannually on their audit accomplishments during each prior six-month period. These revised planning, reporting, and review instructions are permitting us to better identify those countries in need of greater backstopping assistance as well as additional manpower resources.

RECOMMENDATION 9 Continued

Based on a detailed study and review of the above information coupled with visits to individual missions and additional special information when required, the Agency will make a realignment of Controller and auditor positions and personnel to assure compliance with the following policies:

a. Audit staff should be available to provide adequate audit coverage of all loans, technical assistance projects, capital projects, program assistance, local currency projects and P.L. 480 Title II and III food programs. (Adequate audit coverage does not imply a 100% detailed audit which would not be economically justifiable but requires the employment of a professional audit approach with reviews and selective audit tests made to determine the extent of audits necessary.)

b. Medium and large missions with on-going programs should be staffed with adequate and well-balanced controller personnel to be 'self-sufficient' for performing auditing, budgeting, accounting and related financial management functions.

c. Smaller missions, liquidating or phased-down missions will either be staffed to perform the necessary financial management functions or will be provided full or supplemental accounting and audit coverage from a neighboring mission, an area controller office, or from AID/W.

If after realignment of Controller positions it is determined that additional Controller and auditor staff are considered necessary to provide adequate audit coverage, additional staff will be recruited as part of the same intensive program being developed for the other essential specialists -- Engineers, Loan Officers, Food for Peace Officers, etc.

With respect to Headquarters Controller functions, continual effort is being made to make more effective use of available manpower and other resources. In increasing Headquarters audit coverage, the Agency has worked out negotiations to utilize other government agency audit facilities and to use to the extent possible private accounting firms.

RECOMMENDATION 10

Summary of Conclusions

"As repeatedly indicated, one of the greatest handicaps under which the Agency is working is the lack of stability due to the great many reorganizations in the Agency and particularly the many changes in the leadership and top personnel. If substantially improved operations are to be expected, the Administrator of the Agency must have longer tenure and the key personnel must not only have proper qualifications initially, but must remain in their respective positions for longer periods than has previously been the case. The converse is equally true. Inept or unsatisfactory personnel cannot be left in their jobs for unnecessary periods of time because of weak administrative practices. Bringing greater stability through a top-notch personnel staff and advancement on merit, is one of the most important things that can be done to improve the operation of the Agency."

Recommendation 10

"It is recommended that the administration take cognizance of certain deplorable personnel conditions which have prevailed in this Agency and support it in working toward greater stability in personnel administration."

Agency Comment

The conditions described in this part of the Committee's conclusions were a not unexpected concomitant of the total transition into A.I.D. from its two predecessor agencies -- ICA and DLF. The calendar year 1962, during which this change-over was initially accomplished, was a period of drastic structural re-organization and replacement of leadership.

Beginning almost simultaneously with the preliminary inquiries of the Committee's staff, relatively early in 1963, significant gains began to be achieved in accomplishing the objectives cited in the Committee Report. These positive actions have included the following:

-- A new Assistant Administrator for Administration and a new Director of Personnel were appointed, whose backgrounds in both the foreign assistance area and in overseas service assures understanding and competence in achieving the goals stated in the Committee's recommendation.

-- Further details of achievements and projections are contained in the response provided hereafter to Recommendation 12 of the Committee's Report.

RECOMMENDATION 11

Summary of Conclusions

"... there exists a great lack of coordination...between the respective bureaus themselves, between the bureau operations and the administrative functions, and ... between bureau operations and the Washington staff offices... Although many ... functions have been decentralized into the four Regional Bureaus, there still is an urgent need for a strong central personnel office to maintain consistency in policies and planning... and to insist on coordination between the bureaus. There is... a need for the Office of Engineering (to coordinate) policy and standards in the engineering field ... a central contract office... to correlate and regulate... contract operations and to provide centralized information respecting contract operations..."

Recommendation 11

"It is recommended that these serious deficiencies, of which the Administrator is well aware, be corrected as expeditiously as possible and that the Agency report back to the Committee within three months after the date of this report as to the progress being made."

Agency Comment

The problem of coordination among operating bureaus and between line and staff offices is probably endemic to all new or reorganized agencies of government. The weakness was recognized by A.I.D. and, in the past year, has been subjected to a frontal attack.

The "Implementation Project," --- an organizational self-analysis performed by seven working groups composed of senior staff from all the major offices of A.I.D. --- thoroughly reviewed the Agency's methods of designing programs, selecting projects, doing business, and coordinating its activities. The immediate result of the project has been the issuance of rationally designed and clearly stated procedures governing the major fields of A.I.D. endeavor, among them capital, technical and program assistance, procurement, and private enterprise activities. In each area, there now exist uniform criteria to be considered, uniform clearance rules, uniform means of documenting, expressing, and implementing decisions that have been reached. Responsibilities and powers of the various line and staff offices in each phase of A.I.D. activity have been more clearly established.

We now have for the first time in A.I.D. a single office, the Office of Procurement Policy in the Office of Material Resources, which is responsible for continuous examination and improvement of A.I.D.'s procurement policies, procedures and practices.

The Office of Material Resources is also in the final stages of developing a centralized contract reporting and information system.

RECOMMENDATION 11 Continued

The Office of Engineering also has a new Director. A new functional statement for that office has been developed which clarifies that staff's present relationship with other major elements of the agency. We are improving communications with that segment of the U. S. business community comprised of the construction industry and the Engineering professions by direct relations with the established national professional groups such as the National Society of Professional Engineers, Consulting Engineers Council, the Coordinating Committee on Relations of Engineers in Private Practice with Government, the Associated General Contractors and the National Constructors Association.

The participant training operation has been raised from division to office status and placed under a newly appointed Director.

The Office of Management Planning, which played a central role in the Implementation Project and is responsible for agency follow through regarding it, is likewise headed by a new Director.

Lastly, A.I.D.'s Assistant Administrator for Administration is the principal officer charged with improving the workings, procedures, and coordination of the Agency. The present incumbent assumed his duties just as the Implementation Project was coming to fruition and its new mechanisms, policies, and procedures were going into effect. On his shoulders, assisted by the other members of the management team, will fall the principal burden of completing the job of transforming A.I.D. into a better managed, better coordinated, and more effective Agency. Important informal coordinating mechanisms have been adopted which provide policy guidance and a basis for discussing mutual problems through weekly meetings between the Assistant Administrator for Administration and the principal management officers and by a Personnel Council composed of representatives of the central Office of Personnel and the Regional Bureaus.

RECOMMENDATION 12

Summary of Conclusions

"There are able, dedicated, career employees in this Agency who, due to a lack of adequate personnel policies, have been shuffled to positions inconsistent with their abilities and experience, to the detriment of the work of the Agency. Reportedly, there are also a number of unsatisfactory or marginal employees who, because of this same lack of personnel policies, have been retained on the rolls of the Agency for too long a period of time. ---. There has never been an adequate career system in the Agency, nor has there ever been a workable, systematic, and equitable 'selection out' process until the initiation early this year of such a program, which, of necessity, was limited to the Foreign Service Reserve employee category of approximately 3,200. --- Because of the delays in the initiation of the selection-out process, it should be carried out at the earliest possible time that it can be equitably done. Also, consideration should be given to providing means of conducting the same type of operation with respect to the civil service employees. The inservice training program in the Agency has been very inadequate, --- ---. ---, an exceedingly high number of supervising personnel in the Agency were observed to be in an 'acting' status for unduly long periods with the consequent bad effect on morale. --- A particularly bad record has been made in the past by slowness in transferring or terminating employees after their assignments were completed. ---"

Recommendation 12

"It is recommended that the Agency report back to the committee within 6 months after the date of this report on the action which has been taken to correct the specific conditions cited above."

Agency Comment

The deficiencies cited in the committee's statements of conclusions under this heading are recognized by A.I.D. officials and have been given serious attention. Much has already been accomplished toward their correction, and much yet remains to be done. The following details are presented both in the areas of achievement and intent.

The lack of adequate personnel policies inherited from predecessor agencies ICA and DLF had been the subject of a special effort mounted in 1962. Over 150 specific issuances were identified for revision or complete replacement. During 1963, a major part of the job was completed by the Office of Personnel Administration. As of the end of January 1964, 76 revised or new directives had been issued or approved for issuance. Twelve others were in the clearance process or awaiting final approval, and twenty were in the drafting stage. Priority has been given to the most important foreign service personnel areas. This major task should be completed by the end of 1964.

RECOMMENDATION 12 Continued

Up-grading the quality and competence of A.I.D. employees is a major objective of both the organizational and procedural aspects of the Agency's overall personnel management improvement program. With a few exceptions, the placement problems resulting from the transitional period of 1961-1962 have by now been resolved. Normal attrition, the retrenchment program initiated in late 1963 and projected throughout fiscal years 1964 and 1965 and new separation authorities currently being requested from the Congress will enable the Agency to complete the proper reassignment of competent and experienced employees, and to eliminate in an orderly manner those employees identified as marginal or unnecessary.

As a matter of equity, it must be recognized that previous attempts to dispose of less than adequate staff members were associated with "crash" programs subject to short time limitations and resultantly intensive political pressures. In its FY1965 legislative proposals, the Administration is requesting flexible and continuing authority.

The selection-out program for A.I.D. overseas employees was carefully initiated in 1963. Early in 1964 the first group of employees identified for separation under the authority were notified. Plans are already under way to extend the refined and equitable procedures to additional foreign service employees before the end of Fiscal Year 1964.

One of the new legislative authorities previously referred to consists of the extension of the selection-out concept to the domestic service employees in the Agency's headquarters. In anticipation of approval by the Congress, plans are already being developed to revise the performance evaluation system, applicable to these employees so that marginal performance can be clearly and equitably identified and eliminated.

Considerable attention was given in 1963 to improvement of the Agency's employee training activities. Both in the in-service and the orientation programs have been redesigned to stress better administration and management of the assistance programs. Closer coordination has been achieved with the staff of the Foreign Service Institute as a part of the overall review. Additional funds are being requested for FY 1965 to accomplish the essential improvements.

A recent review of positions occupied on an "acting" basis indicated improvement in the past 12 months. Sixteen of the twenty acting incumbencies reported on page 78 of the committees hearings have since been removed from the acting category. A relatively few positions continue to be filled by employees in an acting capacity for short periods of time due to temporary assignments made pending new recruitments or overseas rotatees entrance on duty in AID/W.

RECOMMENDATION 12 Continued

The Agency's accomplishments in reducing overseas employee "turn-around" time in the first half of 1963 were continued throughout the year. Considering the human and cost factors involved in the overseas employment situation, it is believed maximum economy and effective manpower utilization is being achieved. The new concepts, stream-lined procedures, and concentrated attention to the problem resulted in an effective operation when the USAID Cambodia activity was terminated recently.

RECOMMENDATION 13

Summary of Conclusions

"In the technical assistance program, practically as much money is spent for contracting services, including commodities, as is used for direct hire employment in the Agency in this area. The Agency, --- is unable to furnish the exact number of its contract employees or to give a breakdown between the salaries and expenses costs of such contracting services and the cost of commodities which are furnished incident to such projects. This is unsatisfactory and should be corrected."

Recommendation 13

"It is recommended that the Agency maintain and furnish sufficient records to the committee to reflect complete and accurate cost data respecting contractor employees, including a breakdown, by contract, between costs of "salaries and expenses" and the costs of materials furnished by the contractor; also, that it furnish more accurate figures on the number of contractor employees and provide data which will enable the committee to make comparison between the relative costs of direct hire and contractor services."

Agency Comment

To comply with the essence of this recommendation, the Agency has adopted a form entitled "Contract Cost Data" for use by its contracting officers to provide the type of information stated in the recommendation. A breakdown will be obtained by contract between costs of "salaries and expenses," the cost of materials furnished by a contractor, the number of employees contemplated, as well as other information which may prove helpful to A.I.D. in future contract administration.

The provision of this information was adopted effective March 1, 1964, since it was considered unfeasible, because of the heavy manpower cost involved, to attempt to retroactively obtain similar information on previous contract actions.

RECOMMENDATION 14

Summary of Conclusions

"The Agency employs a host of foreign nationals in various capacities --- to support its U. S. employees overseas.' --- there were indications that there was an excess of these employees worldwide ---"

Recommendation 14

"It is recommended that a review be made of this situation; that the numbers of these local employees be curtailed to the bone; and that the committee be advised within 6 months of the date of this report as to what progress is being made.

Agency Comment

The Agency has reviewed its foreign national staffing worldwide and has taken steps to make significant reductions where these can be accomplished without detrimental effect on program operations. By June 30, 1965, A.I.D. plans to make substantial reductions in local employment to a level of approximately 9,100 worldwide, a net reduction of almost 700.

RECOMMENDATION 15

Summary of Conclusions

"In presenting appropriation requests, the foreign assistance agencies have submitted an administrative budget, covering administrative personnel expenses on which Congress has placed a dollar limitation, while all other employees are classified as program personnel on whom there is no numerical or fiscal limitation and whose salaries and expenses are paid from development grants for technical assistance. This would appear to be unbusinesslike ----. ---- it permits an unlimited ceiling on program personnel."

Recommendation 15

"It is recommended that this practice be eliminated; that in the budget presentation for fiscal year 1965, the Agency prepare the regular 'salaries and expenses' budget request required of other agencies; and that the personnel and expenses incident to each major program operated by the Agency be broken down separately."

Agency Comment

Examination of this recommendation and the related discussion leads us to the conclusion that adoption of this recommendation in its entirety is impractical and undesirable for the Agency at this time. There are several aspects of the proposal which are involved in this conclusion.

Previous administrations and the Congress have recognized the necessity for administrative flexibility in the execution of the economic assistance program and for this reason have accepted the concept that our Congressional presentation is largely illustrative and not firm in its details in the normal budget sense. Manpower, whether direct hire or by contractual arrangement, is only one of the several elements required to execute the programs and projects proposed in the budget, and if flexibility is essential for the total operation, then a similar degree of flexibility would be essential for each of the components. The rigidities inherent in the proposed "salaries and expenses" request argue against adoption of this proposal.

However, in recognition of the need for firm administration of manpower utilization, internal controls, over all personnel, program and administrative, have recently been adopted through the establishment of numerical limitations on direct hire personnel. These controls are designed to ensure the appropriate level and mix of staffing commensurate with the volume and nature of the current program. The FY1965 Congressional Presentation includes an exhibit titled "Summary of Total Direct Hire Personnel Strength." This exhibit shows personnel strength actually on board at year end for FY1963 and estimated for FY1964 and 1965. It is designed to provide the user with relevant data regarding administrative and program personnel based on Agency planning.