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

ASSISTANT
ADMINISTRATOR

December 13, 1971

Honorable John A. Hannah
Administrator
Agency for International Development
Washington, D.C.

Dear Dr. Hannah:

No report which deals with so sensitive a subject and which so directly affects the professional responsibilities and personal lives of the staff can hope to state a consensus. We have made extensive use of suggestions which have been forwarded to us directly and through official channels. We have drawn on the advice of the Advisory Group and on that of others experienced in the operations of development programs and AID specifically. Nonetheless the conclusions in this report are our own.

We realize that organizational questions are a matter of judgment rather than objective criteria. We have therefore avoided specifying organizational changes in detail and have limited ourselves to sketching the broad outlines of how we think the Agency can be restructured within existing legislation and Executive Orders to improve our efficiency, challenge our personnel and become more responsive to the world of the 1970s.

We received our assignment on September 27, well before the events of October 29. Inevitably these events affect the consideration of this report, and its uses. However, as of now it appears to us that our recommendations remain valid and that action on them is both desirable and opportune. Even if we do not receive a two-year authorization for development assistance, detailed plans for an improved organization will be an important element in discussions with Congress next year.

We are conscious that there have been many reports in the past whose only impact is a faint impression in the dust on library bookshelves. We hope that ours will not suffer the same fate. We therefore urge that you move to a quick consideration of the recommendations we have made, followed by decisions on implementation. The decisions

are tough, but the issues are clear enough. The momentum toward revitalization, which our report hopefully is starting will be lost unless we move expeditiously. There would be nothing worse than to have the attempt at self-analysis and self-improvement bog down. We therefore hope that within the next few weeks you will have completed your consultations and have formed a judgment on which of our recommendations will be implemented and how.

We suggest that as soon as the decisions are made a Task Force on implementation be established. The effort will fail unless it has high level guidance, which means that responsibility must be located in your office under the personal supervision of the Deputy Administrator. To prescribe change is easy; to implement it is a long and frustrating process.

We wish to express our particular thanks to Mr. James E. Williams, Associate Assistant Administrator for Administration, who has participated fully in the work of the committee.

In conclusion, we wish to say that the nature of the assignment precluded our dwelling at length on many of the strengths and virtues of our existing programs and organization. We can simply point to the fact that the motivation for this exercise came exclusively from within; it takes a strong organization with dedicated and perceptive leadership to be willing to operate on itself. We have been honored and challenged by having been asked to lead the first steps in this process of revitalization.


Ernest Stern, Chairman


Philip Birnbaum


Thomas Arndt

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I. INTRODUCTION

It is desirable to stress at the outset what this report is not so that readers will not have erroneous expectations. Our report is neither an analysis of past accomplishments and problems nor a management study; nor did we attempt to provide a detailed blueprint for reorganization.

Our report does provide a strategy for change and it spells out some of the principal components of that change.

In preparing the report we were guided by voluminous and helpful comments received from the field and Washington offices. These comments ranged from the very specific to broad proposals for restructuring AID. We have made extensive use of the material. Many of the comments dealt with details more appropriate to the implementation of proposed changes, and we have collated that material for such use. In addition, we drew on the "transition" studies which had been undertaken earlier when it was assumed that Congress would act on the President's new aid legislation in the current session. Many of them deal with changes we feel are necessary, and they will reduce the work needed in implementing proposed changes.

State of the Agency

This report looks to the future. Yet, we must start with an assessment of where we are before we can determine where we want to go and how we can get there. Inevitably we must focus more sharply on problems than on strengths, but it is on our strengths that the proposals for revitalization are built. These include:

Staff - Despite losses of many competent people, AID still has a reservoir of able personnel, skilled in development problems. We combine in one organization the experience of development lending, of sustained involvement in institution-building and training, of extensive participation in development-oriented research and knowledge of the development problems and policies in many countries.

Comprehensiveness - We make recommendations on improving AID's policy awareness, recognizing that the Agency has a broad and integrated view of the development process and recognizing the interrelationship of social evolution, economic growth, science and technology and the participation of people in development benefits.

Innovation - AID has its share of bureaucratic inertia but, compared to other development agencies, we have greater flexibility in integrating capital and technical assistance, and a tradition of policy innovation. AID pioneered in the use of program lending, in the emphasis on comprehensive planning for effective resource use, in the use of evaluation systems, and in population programs--to mention a few areas.

In short, AID is a vital organization which performs a difficult job in the face of an extraordinary amount of outside pressures. A self-examination is in order because we face a new environment and because we can do better.

The major problems can be summarized briefly:

1. There is no clear sense of purpose about foreign aid in the government, the Congress or the public, and our own sense of purpose is diffused by our multiplicity of objectives. The basic conviction of the American public regarding the importance of foreign economic assistance and the role the United States should play in this process has been weakened. We are in a period of turning inward, with increasing emphasis on acute domestic social problems. This cannot fail to have a significant impact on our program and our staff.

2. The structure of AID has remained essentially unchanged in a decade. During that period annual lending levels have been reduced drastically, annual technical assistance funding has been stagnant, the importance of the international development organizations has grown, and the development problems have changed. Some important changes have been made--such as the creation of the Technical Assistance Bureau and the Office of the Auditor General--but our organization and procedures still do not adequately reflect the decreased volume of services we are rendering to the developing countries. We retain an overhead organization and staff which has the capacity to administer a much larger program. This excess capacity is used to over-supervise and over-regulate field units and at other levels of supervision creates a preoccupation with means and procedures rather than ends. Responsibility for policy, programs, budgeting and services is diffused. Lack of clear management responsibility inhibits both crisp decision-making and effective communication of policies.

3. Our delivery of services to the field is slow and unnecessarily hedged with restrictions. We are circumscribed by requirements imposed by Congress, the GAO and others but even within these constraints our control system is disproportionate to the risks involved.

4. AID has a serious problem with its public image; which is poor. It remains a central fact of life that neither the Congress nor the public understand the complexities of development, U.S. interest in providing assistance or the limited political influence development assistance generates.

Supporting Assistance and Public Safety

We believe that it is essential to proceed expeditiously with the transfer of responsibility for Supporting Assistance. There is no need to await the passage of the International Security Assistance Act. Present delegations of authority can be revised to initiate the change after passage of the FAA which establishes the Coordinator for Security Assistance in the Department of State. The separation is necessary to the restatement of our purposes and the rebuilding of public understanding. The present arrangement removes our control and effective supervision but leaves us with the public responsibility. The transfer of Supporting Assistance should include the transfer of the Office of Public Safety. While it is true that humane but effective law enforcement is essential to development it is equally true that the program is politically sensitive both in the U.S. and in the recipient countries.

Applying a Sense of Purpose

The first step in the process of revitalizing the Agency must be a clear perception of its function. All else flows from this. Without a clear understanding on the part of all component units of the role of AID, its relationship to the development process and its function within the U.S. Government as a spokesman for development, the Agency will not be a unified entity. After allowing for necessary diversities of views and interpretations, a central set of objectives must be clearly stated and consistently supported. This is the key to the transformation of AID into an operating agency with the thrust and morale required to be fully effective.

II. DEVELOPMENT IN THE 1970's

Defining the role of the bilateral development assistance agency requires that we spell out the assumptions about broad trends in the developing countries in this decade and the domestic constraints within which any aid agency must operate. Many of these assumptions echo the analytical conclusions of the Peterson Report.

The International Aid Mechanism

We need not recite again the details of the impressive growth of world aid programs--bilateral and multilateral--as well as the establishment of organizations dealing with development issues.

A few highlights will suffice:

- . AID net loan authorizations declined from \$1,330 million in 1962 to \$682 million in FY 1970.
- . During the same period loan commitments by Germany rose from \$247 million to \$727 million; of Japan from \$184 million to \$973 million; and of Canada from \$106 million to \$220 million.
- . Loans authorized by the World Bank, IDA and the regional banks were \$3,266 million in 1970; they were \$1,346 million in 1962.
- . In 1962 the U.S. provided 51% of total DAC bilateral technical assistance disbursements; in 1970 we provided 37% of \$1.5 billion. The UNDP provided \$67 million in 1962; last year its program was \$207 million.
- . Regional organizations have grown such as CIAP, the Caribbean Development Bank, the African Development Bank, the SEA Development Advisory Group; as have institutions for coordination of aid programs and development issues such as DAC, the consultative groups for major recipients, the UN Committee for Development Planning and the World Bank coordinating group on agricultural research.

What these, and other developments add up to are that while the U.S. is still a very important donor, it is no longer overwhelmingly dominant in the provision of resources, the analysis of requirements or the capacity to proffer advice. It is a participant in a system; not the autocrat of development assistance.

The Evolution of the Recipients

AID employees are well acquainted with the progress of the developing countries in the past decade. On the whole they have increased:

- . their income (an average GNP growth per year of 5.5%),
- . their capacity to manage their resources,
- . their ability to plan,
- . their perception of development issues,
- . their political power in international bodies, and
- . their sources of external advice.

Progress has not been uniform and the developing countries still vary widely in their management capacity and growth potential--an important factor in designing operational programs. Nonetheless, the nature of requirements has changed as have relationships between recipients and donors.

Evolution of Development Problems

Problems facing the developing countries in the 1970's also differ from the development issues of the 1960's. In part the new problems are the result of progress--second generation problems. For instance, increased agricultural productivity requires greater efforts in research on disease resistant varieties, in pest control, in water management, in distribution and marketing system. Reductions in mortality rates force urgent attention to family planning. Improved educational systems require more jobs for skilled workers. However, the perception of the development process also has changed. Growth is still the vital element but there is clear recognition that it is still not enough. Priority development objectives of this decade include

- . reduction in population growth,
- . adequate employment opportunities,
- . more equitable distribution of income,
- . adequate supply of nutritious food at prices all people can afford,

in addition to continued efforts to increase agricultural and industrial productivity, expand exports, raise educational levels and health standards and provide adequate shelter.

Policy Parameters

The President has clearly indicated the assistance policy he wishes to follow in his Message to the Congress of September 15, 1970, and in transmitting the new aid legislation on April 21, 1971. The basic policy objectives remain unchanged despite the legislative vicissitudes. These include

- Reaffirmation of the importance of development assistance-- bilateral and multilateral--to U.S. foreign policy objectives.
- Strengthening the international institutions by
 - . increasing their resources,
 - . channeling an increasing share of U.S. development assistance through multilateral agencies,
 - . providing bilateral assistance within a framework established by the international institutions.
- Streamlining the bilateral assistance program by
 - . reducing the number of employees abroad,
 - . maximizing the use of private sector resources in implementing assistance programs.
- Recognizing the changing world relationships and progress in developing countries by
 - . maintaining a "low profile"--not measured by number of people but by attitudes and behavior patterns,
 - . relying more heavily on developing countries to formulate their plans, programs and projects,
 - . increasing attention to the effective transfer of science and technology.

Operational Constraints

The FAA contains many provisions which restrict operating flexibility, initiatives and innovation. The close and continuous scrutiny by the Congressional Committees, the GAO, the IG, and AG sometimes transforms

prudence into fear of risk and action, in a business where risks are great and time of the essence. While none of this appears likely to change in the near term, we believe that efforts should be made to normalize the "oversight" review function along the lines of other Federal agencies. We believe that the necessary recurring "detached" audits and reviews, as required by the Budget and Accounting Procedures Act of 1950, can be adequately performed by an internal "Auditor General" activity under the direction of the Administrator, augmented by an external GAO "watchdog" activity. The Congressional committees, of course, operate under their own prerogatives, and we need to do a better job of selling them on our effectiveness in the development field.

III. FUNCTIONS AND ROLE OF AID

The setting described in section II provides the basis for defining a set of functions for AID. A clear statement of purpose is vital to building organizational spirit and dedication. Because of its importance to the future, one is tempted to become almost Biblical in defining the function of AID--an urge we have resisted--since the basic functions can be stated fairly simply.

Reasons for Assistance

The U.S. provides assistance to the developing countries because

- . we believe that the possibility of peaceful evolution of nations is enhanced by the prospects of accelerated development.
- . we believe that human dignity and the development of each individual's potential are essential to a free society and this belief dictates a concern for people everywhere.
- . we believe that man can develop the capacity to abolish hunger, illiteracy, premature death everywhere. Urgent social problems at home do not negate our responsibility to help the LDCs, in concert with others, in these endeavors.
- . we believe that ultimately the problems of development are world problems. Neither our ethics nor our economies can tolerate a world divided between the fat and the starving.
- . we believe that there is ample evidence of major progress in developing countries and that foreign assistance has played a small, but vital role in these achievements.

The U.S. development assistance program provides funds in pursuit of these national and foreign policy objectives. In part these objectives are met through our contributions to international agencies; in part through our bilateral program. Both programs serve the same general objectives but the bilateral program can, in addition, concentrate on areas of special interest to the U.S. These special interests are both geographic and substantive. In some areas, such as Latin America, the U.S. has special interest; substantively the U.S. has unique capacities and experiences on which we wish to build in our aid programs. These include agricultural research and production,

science and technology, capital markets and price incentives, mass education, population and nutrition. In addition, the U.S. has unequalled organizational skill in providing humanitarian assistance which, as has recently been demonstrated, cannot be easily internationalized. To represent specific long-term foreign policy interests and to make effective use of American experience is the responsibility of AID. AID has three quite distinct responsibilities.

1. Spokesman for Development Interests

AID has a unique perspective on the problems of development. While aid is an instrument of foreign policy, it supports long-term interests rather than assures the achievement of short-term objectives. However, aid can only serve broad foreign policy interests effectively if the totality of development problems is taken into account in the formulation of U.S. policy. In this context AID advises the Secretary of State and the President on the impact of policies--trade, aid, monetary, investment--on the developing countries. AID's expertise is not limited to countries where we now have bilateral assistance programs. This broad expertise should be retained since many development issues are global and because the international development institutions, to which we contribute heavily, operate in many countries. In addition, AID should be the Government's principal spokesman on development problems with the U.S. public, the Congress, other donor countries and international agencies. In most cases, of course, the impact of general policy issues is not limited to developing countries and AID would be one participant in discussions for which other have primary responsibility.

2. Innovator in Development

AID has contributed importantly to innovations in the past--in development policy, in agricultural production methodology, in transferring resources and skills, in planning and evaluation, in research, in population planning, in nutrition and in other fields. But much more needs to be done. Many of the major problems which the developing countries will face in the 1970s have outstripped the ability of current institutions, delivery systems and technology. The problems of population growth, food and malnutrition, mass unemployment, and low-cost health and education systems require better understanding of the dynamics of development, new types of public and private institutions, new techniques for delivering services, new policies for allocating resources, and in some cases, new technologies. AID needs to place major emphasis on innovation, research and joint problem-solving efforts with the developing countries in the years ahead.

AID's responsibility should be to emphasize experimentation and innovation both in the design and implementation of programs. Once activities become accepted and traditional we should actively seek to turn them over to other development organizations, except in carefully selected areas where U.S. expertise makes continued work desirable. Spinning off the established is essential if one is to explore the new, with limited resources.

3. Manager of Development Resources

AID is responsible for managing a \$8 billion development assistance portfolio. The portfolio includes loans and technical assistance activities in process of implementation. Inevitably, the way we manage these resources affects our ability to fulfill the other two roles; our resource management capacity is the bedrock on which our other roles stand with the public, the Congress and other agencies. Our resource management capacity can be improved by reducing the lag between conception and implementation, by relying on LDC initiatives, by involving developing countries more effectively in the planning for and design of programs, by focusing our resources on those priority development problems to whose solution we can contribute, and by slimming down our organization.

The following sections deal with the details of AID's three roles, and the changes necessary to discharge them effectively.

IV. SPOKESMAN FOR DEVELOPMENT

One of AID's principal functions is to be a spokesman for U.S. development interests within the policy councils of the U.S. Government, with other governments, international institutions, the Congress and the U.S. public. This function is not a bureaucratic prerogative but derives from the fact that development is AID's business. AID's knowledge of development problems and policies and of the development objectives and performance of many countries, places it in a unique position to analyze and assess the impact of U.S. policies on developing countries.

AID's role in policy formulation is analogous to that of any specialized agency--Treasury, Commerce, Agriculture--which brings its knowledge and concerns to bear on specific issues. Foreign policy needs this sort of input if it is to be balanced and realistic.

The role of spokesman requires

- broad and expert knowledge about the economic and social requirements for growth in the developing countries (not limited to those in which bilateral programs operate) and the relation of these requirements to actions of the industrialized countries.
- the knowledge and capacity to deal with other industrialized countries on development issues at the policy and program level.
- thorough knowledge of the multilateral institutions and the capacity to deal with them at the policy and over-all program level.
- staff competence to deal with general development issues such as intra-LDC trade, debt, export growth, and employment policy.
- a knowledge of sector issues and the capacity to deal with functional agencies such as the UNDP and the UN special organizations.
- adequate opportunity to participate in the decision-making bodies within the U.S. Government which deal with foreign policy questions affecting development.

In recent years AID has not adequately discharged the role as a spokesman on development issues within the U.S. Government and, despite some buildup of staff, capacity necessary to this function remains limited. We need to reaffirm this function and increase resources devoted to it.

We must organize ourselves:

- . to identify and analyze development issues.
- . to assure high level attention to these issues in formulating Agency positions.
- . to speak out as an Agency on these issues.

An essential first step is to alter the AID decision-making process to insure that such issues, properly staffed out, rise to the top for systematic consideration by the Administrator and his senior staff. Sound policy decisions require that the preparatory discussions involve all those with relevant experience. We recommend in Section IX the establishment of an Administrator's Council which will provide the forum for such discussions.

A second step is to improve the machinery to monitor follow-up on policy decisions with regular reports to the Administrator and the executive staff. This will require a selective increase in staff resources devoted to the analysis of development issues, to the preparation of position papers for decision, and to implementation.

These proposed internal improvements are fundamental to being an effective spokesman for development within the U.S. Government. The matters listed below require urgent attention.

Coordination with Other Donors

U.S. assistance is a decreasing share of bilateral development assistance. This puts a premium on more effective coordination with other donors. In the past coordination was desirable; now it is essential.

A great deal, of course, is already being done in this area and AID often has played an important role in creating new coordinating mechanisms, in assuring more effective staff work for coordination and in urging international organizations to exercise leadership.

Coordination is more than a matter of discussing country assistance levels in consortia and consultative groups. It requires sustained dealings at the policy, program and operational level to evolve a coordinated division of labor in attacking development problems generally and in specific countries or regions.

This emphasis on contacts with other donors applies also at the field level. Formal or informal coordinating groups of donors within recipient countries should be pursued under the aegis of the host country, the UNDP, the IBRD or the principal donor. It provides a basis for keying our programs to LDC priorities and other donor activities.

Participation in International Forums

The problems of development and assistance strategy are the subject of discussion in many international and regional forums. For instance, UNCTAD, despite its sometimes shrill voice, is the source of many imaginative ideas and proposals. Yet AID has considered such forums marginal to its interests, has participated sporadically in preparatory work, and rarely participates in the meetings. When AID representatives participate in meetings of regional organizations our participation tends to be limited to questions of aid levels and distribution. Rarely are general issues--e.g., trade matters--discussed on an Agency basis. If AID is concerned with development, not just financial assistance to development, it must concern itself with the work of the international institutions which deal with development issues.

International Financial Institutions

In 1970 the international development banks committed \$3,376 million. Obviously, the policies governing these loans have a major impact on our own policies, programs and techniques. Yet the mechanism for instructing our Executive Directors remains oriented toward financial concerns, with scant attention to development problems.

Currently, the U.S. position on issues before the international development banks is determined by the Secretary of the Treasury with advice of the National Advisory Council. AID was a member of the NAC before 1966. We believe that, as a minimum, AID should be included in the NAC as a voting member. In addition, we believe that either the U.S. Executive Director to the international banks or his Alternate should be persons with AID experience. This is already the case with the Inter-American Development Bank.

The U.S. should recognize, as some other countries do now, that two quite separate categories of issues come before the Boards of the international banks. One set of issues involves the basic charter of the organization, the volume of its resources, its access to capital markets, its credit rating and the terms of its borrowing. The other deals with its lending policies and the assessment of performance of individual countries. This set of issues is of deep concern to the U.S. Government and strengthened U.S. participation requires a more effective role for the U.S. development agency.

United Nations Development Program (UNDP)

AID needs to strengthen its policy and program relationships with the UNDP, which now has one of the largest technical assistance programs, and the UN special agencies. These relationships are now the responsibility of State/IO. There have been proposals in the past that State shift responsibility for dealings on development issues with the UNDP to AID while retaining responsibility for over-all political guidance. Such an arrangement would be consistent with the present division of labor between State and AID for country programs. It would streamline the cumbersome system for providing AID technical inputs and would more effectively coordinate U.S. development interests as expressed in the specialized agencies. It would improve relationships with Congress if all technical assistance, bilateral and multilateral, were regarded and handled as part of a common objective rather than as competitive enterprises.

Global Development Problems

The role of development spokesman also implies encouraging the creation of international consultative groups for sector problems. The International Agriculture Coordinating Group being led by the World Bank is an example. Similar groups addressed to specific sector concerns in education, population, employment, and so forth, should be explored. Although the U.S. may take the leadership in one, perhaps two of these groups, its primary concern should be to encourage their formation.

WE RECOMMEND THAT

1. AID strengthen substantially its capacity to coordinate with other bilateral donors at policy, program and operational levels.
2. AID expand its concern with and participation in the work of UNCTAD and other UN specialized agencies.
3. AID become a member on the National Advisory Council on International Monetary and Financial Policies.
4. AID strengthen its capacity to deal with the lending policies of international financial institutions.
5. Either the U.S. Executive Director or his alternate, at the World Bank and regional banks be a person with AID experience. (This already is the case with the IDB.)
6. AID strengthen its ability to deal with the UNDP at the program and policy level; and explore the possibility of transferring liaison on technical issues to AID.
7. AID continue to work toward establishing international coordinating mechanisms on major sector issues.
8. AID presentations to the Congress and public groups reflect the internal shift toward broader involvement in development policy issues rather than continuing to limit presentations to AID financed activities.

V. INNOVATOR IN DEVELOPMENT

The problems of development are changing and many are becoming more acute. In some cases our basic knowledge is inadequate, in some technology is inappropriate and in some the institutional and policy frameworks are outdated. AID cannot be the "gap filler" for all knowledge problems, but we must devote a much greater share of our talents, effort and finances to help find answers to the critical development problems. Since the world's problems are many and our resources meager, great selectivity is called for, which will create permanent strain between this objective and the innovative drive which knows no bounds. There are some general guiding principles:

- The Agency must develop a more sharply directed research philosophy. It does not now exist. The central research program, which can lay some claim to coherence, is only a part of our total effort.
- Research on development problems is a long-term, global problem. This means that we must (a) be concerned with building institutional research capacity in DCs, (b) stress international coordination.
- AID research must be conceived of as a tool of management i.e., it should be directed. The problem areas we believe our operation programs will deal with in 1975 should be the starting point for deciding what research to undertake now.
- Except for basic research, where requirements outstrip LDC facilities, research should be financed in the developing countries, with U.S. institutional support where necessary.
- Research must be an integral part of our planning. Research plans must be discussed at the senior staff level, research results disseminated, and the application of research results regularly evaluated.
- LDC problems are always multi-disciplinary. It would be as naive to think of effective family planning solely in terms of prostrogladin as it would be to think of increasing production solely in terms of raising farm prices. This does not mean that all research projects must be multi-disciplinary; it does

mean that if we decide on a research project we should simultaneously develop studies of other aspects of the problem.

-- Innovation is far broader than research. Change is constantly needed in the way we do business and in the way we perceive problems. We must provide channels and receptivity to new ideas. Without this yeast even a revitalized organization will quickly congeal again.

These principles lead us to the specific suggestions outlined below.

1. AID and LDCs' Basic Research Problems

AID should expand its role as the spokesman for the LDCs to help insure that the basic research efforts of both U.S. public and private institutions give sufficient recognition to critical problems of the developing countries. For instance, much of the ongoing research at NIH or HEW could be of benefit to the developing countries, or the basis for further research by the developing countries. A more active role by AID can strengthen mutual interests and channels of information.

2. Concentration on Applied Research

Given the fact that AID has a limited amount of money for research, plus the fact that other U.S. public and private institutions are engaged in basic research, it is recommended that AID concentrate primarily on directed research for problem solving in sectors and sub-sectors of concentration: agriculture, education/training, family planning, etc. The majority of AID's research money should go for work on major problems related to present operational programs and in preparation for future operational programs. The research should deal with applied technology, e.g., adapting existing agricultural technology to tropical soils, or, in the social sciences, with new forms of institutional development and development policies.

3. LDCs as Center of the Research Efforts

Developing the applied research capabilities of the institutions in the developing countries rather than of U.S. institutions should be the principal objective. We basically doubt the possibility of successfully carrying out research on development problems outside the developing country environment and exclusively under the guidance of persons who are trained to different values and different factor relations. Funds should be provided to research institutes and individual researchers in developing countries to engage their

knowledge and talents. As a general rule the U.S. institution should be the subcontractor, providing support, and the institution in the developing country should be the principal. If we want to support the application of middle level technology for industrial development in the developing countries, we should give assistance to an institute of technology in a developing country which can then engage U.S. researchers to assist in aspects of the research design and execution.

4. International Coordination

In an effort to economize on scarce talent and resources, as well as to get better coordination of other donor inputs, major overseas applied research efforts should be handled through multilateral regional institutions. We have had success working with other bilateral donors and the World Bank in establishing regional multilateral institutions in agriculture, i.e., IRRI and INTA. Similar multilateral regional institutions should be established in other disciplines, e.g., centers for experimentation and study of non-formal educational techniques or centers for the study of individual social and economic aspects of family planning. These regional centers should be closely linked to national institutions in the developing countries, if their research results are to be reflected in new practices and procedures.

5. Evaluation of Research Efforts

It is assumed that properly planned research efforts will incorporate an effective evaluation system. A disproportionate amount of the Agency's talent and time goes into the planning and the budgeting of research activities with insufficient attention paid to the evaluation of the results and what must be done to get pay-out from these research efforts in the developing countries. The Agency must devote more high-level talent to dissemination of information and the application of research results to operational programs.

6. Innovation

However, AID needs not only redirected research programs--it must seek innovation in less formal ways. The innovative capacity of our staff depends on their knowledge and experience, which is good; on the channels of communication, which are poor; and on the receptivity for new ideas and for changing ways in which we do things, which is mixed. Consensus exists that AID's primary role should be to foster development--help the developing countries improve the

lives and productive capacities of individuals. AID should not attempt to copy or duplicate the role of other developmental institutions or try to be a banker like the World Bank, but should be concerned with innovative problem-solving, concentrated in specific sectors or sub-sectors. For example, the physical construction and staffing of an agricultural vocational school should not be an end in itself but the means in attempting to address the problem of how agricultural training can be accelerated and made more relevant to conditions in the developing countries.

Emphasis on problem-solving for development requires maximum flexibility in the application of means. More emphasis should be placed on innovative methods of combining technical and capital assistance for addressing specific development problems.

WE RECOMMEND THAT

1. AID should have a comprehensive research philosophy; research planning, within this framework, should be discussed at the senior management level.
2. AID should help to insure that basic research efforts of both U.S. private and public institutes give sufficient attention to critical development problems.
3. AID should increase the budget for research and pilot problem-solving efforts and concentrate a substantial portion of such funds on applied research in priority sectors.
4. Research efforts should be concerned with innovative application of technology, new forms of institutional development, and innovation in development policy.
5. AID's research efforts should be centered on developing country institutions and personnel.
6. Greater emphasis and support should be given to establishing selective international research institutions akin to IRRI and IITA in other fields, including non-formal education and family planning. These international research centers should be closely linked to national institutions in developing countries.
7. More emphasis should be placed on systematic evaluation of AID-financed research efforts in order to get pay-off and utilization in developing countries.

VI. MANAGING OUR DEVELOPMENT RESOURCES

The way in which AID manages its development assistance program is the basis for our reputation and hence determines, in part, our capacity to perform our other functions.

Delivering goods and services to the LDCs on a timely basis and in support of well-planned activities is a costly, time-consuming process. It is not too surprising therefore that it has come to dominate our lives, particularly since our delivery system is hedged about by restrictions (e.g., 66 items on the legislative checklist for each loan). If we are to perform our other functions well, we must streamline our delivery system so as to free up the necessary time and talent. We believe this can be done within the existing legislative framework.

Dimensions of AID Program Management Responsibilities

The scope and magnitude of AID's program management responsibilities include:

- .. managing and monitoring a portfolio of 445 active dollar loans, totaling over \$5 billion, in 55 countries;
- .. managing and monitoring an active technical assistance program consisting of 1,044 projects in 52 countries which will cost approximately \$3 billion to complete as planned;
- .. managing and monitoring a housing guaranty program totaling \$287 million in 69 projects overseas covering 45,975 housing units;
- .. participating with USDA in the development and administration of PL 480 Title I programs in 26 countries and totaling \$897 million in FY 1971;
- .. managing and monitoring PL 480 Title II government-to-government programs in 67 countries which received donations of \$143 million in FY 1971 and Title II, Voluntary Agency Programs in 64 countries which received donations of \$190 million in FY 1971;
- .. providing training for 13,110 participants (in FY 1971) from 87 countries in the U.S. and other countries

- .. coordinating the U.S. Government and private sector response to foreign disasters. In FY 1971, contributions valued at \$106 million for 49 disasters affecting 23 million people in 39 countries were made by the U.S.;
- .. assisting and overseeing the participation of 82 U.S. voluntary agencies registered with AID's Advisory Committee on Voluntary Foreign Aid (e.g., Catholic Relief, Church World Service, CARE, etc.);
- .. managing and monitoring 78 research projects involving 31 U.S. universities, 15 research institutions, USDA, Interior, HEW, Commerce, TVA and National Academy of Sciences.

The Principles of Change

Two basic principles govern our recommendations; not all the detailed recommendations are vital--the adoption of the principles is.

First, we must establish clear management responsibility for programs, operations and policy formulation. This implies many specific changes including:

- . separating management responsibility for planning from implementation, with adequate provision for coordination at all levels.
- . giving the management team responsible for implementation the authority to decide implementation issues, subject to policy decisions, rather than depend on generalized Manual Orders.
- . assuring that Missions emphasize equally implementation and programming.
- . establishing the concept of project officers in Missions, with full responsibility for monitoring all aspects of project implementation and with full authority within the Mission to help the host country assure the integrated use and timely arrival of U.S. inputs.

Secondly, we must avoid the expensive and complicated duplication of support services by unifying them and making them directly responsive to those having operational responsibility. This implies measures, including:

- . raising the level of management devoted to implementation. Operating decisions must be made consistent with stated policy objectives.
- . improving the definition of implementation issues for policy decision.
- . combining implementation functions by sector.

The Sector Focus

AID has made considerable progress in integrating capital and technical assistance resources but more needs to be done. All too often isolated projects--even if successfully completed--fall by the wayside because the linkages to policy, to other institutions and to the country's planning mechanism are not established. With limited resources we can achieve more if we concentrate programs on a clearly defined set of objectives in a limited number of sectors or sub-sectors.

The sector focus should be the basis for both planning and the organization of implementation. A sector approach will

- . improve the standards of analysis
- . provide a basis for senior management attention to development policy issues and allocation priorities
- . enable us to define project objectives better
- . promote standard Agency criteria, with sufficient flexibility to managers to take account of widely differing situations in the LDCs
- . strengthen the links between evaluation and programming and between research and operations
- . provide an organizational framework for implementation which maximizes professional interchange and responsiveness to policy objectives.

Such changes will take time--both to reorient existing programs and to develop the necessary sector analysis. Moreover, there must be broad leeway in the selection of sectors or sub-sectors. The guiding criteria must be the recipient country's priorities and our ability to mount an effort.

Depending on the size of the program, work in two or three sectors may be appropriate. What should be avoided, however, is technical assistance projects in separate, unrelated areas, and loan projects in yet other areas.

For our planning system the sector approach would require further significant changes. The AID programming system has been in transition in the past two years. We have deemphasized country programming, strengthened the sector approach and improved technical assistance project planning. The further steps that are necessary include:

- Reaffirmation that over-all country analysis should be the responsibility of the international organizations. We need not duplicate their efforts. We must, however, strengthen our coordination to assure that our concerns and sector interests are covered in the analysis of the international financial institutions and capacity to assure that the conclusions of the IFIs are reviewed and form the framework for our allocation decisions.
- Focus our analysis on selected sectors. This implies a need for more and different analytical talent and a reorientation of much of our thinking. We must become much more knowledgeable about the total sector (or sectors) in which we work in recipient countries. This will improve the utility of our assistance and add to our professional standing.
- Make the sector analysis the basic decision-making document. After review and discussion with the Administrator's Council (see Section IX), it would be the framework for all assistance activity in the sector.
- Make the sector the basis for integrated budgeting of all financial resources--loans, grants, PL 480 Title I and II--and manpower. Loan papers and PROPs can be greatly simplified since they will no longer need to repeat the sector objectives--they become documents which implement agreed sector objectives.

On the implementation side the sector approach provides the basis for grouping support and implementation functions so that

- . professional substantive specialization will be developed instead of specialization by type of financing or implementation technique
- . standardized implementation procedures will be assured
- . policies regarding different types of resources will be harmonized
- . operational experience will be utilized on an Agency-wide basis
- . fiscal data can be designed as a tool for management decisions and reporting requirements can be simplified.

The sector approach will be implemented in the framework of program objectives.

Technical Assistance

Within each sector technical assistance projects must cease to be "ours" and become "theirs." It is not enough to talk about giving priority to LDC planning, we must do so. Technical assistance projects should be planned and designed by the recipient country wherever possible--and it is possible in most countries. PROPs should not be internal AID documents giving our objectives, but documents prepared together with the recipient spelling out the program objectives. Where project design capacity is limited, such as in the least developed countries, we should furnish necessary assistance to help the recipient prepare the proposal. Other attitudes must change. Project management is a host country responsibility. If they cannot do it, they cannot benefit from the project. Our role is to coordinate our inputs and to assure that they are being used for agreed purposes.

All of the suggestions below are predicated on the proposition that the recipient country can take more responsibility for implementation (they do in other donor aid programs) and that their doing so will enhance the utility of the assistance. Many of these suggestions have been discussed before and some are in an experimental stage. We list them here because we believe we can move to implement them now.

Specifically,

- Block Grants, providing "program" grants to be used to hire technicians and provide training in one or more sectors. The recipient would be responsible for contracting and its contracting procedures and practices should normally be followed with only such revisions as are necessary to meet U.S. legal requirements. AID financing would be limited to "topping off" salaries and financing training.

- Binational Foundations, joint institutions limited in scope to develop and strengthen indigenous training and research capabilities and to act as a linkage with the U.S. scientific and technical communities.

- Multi-year Funding. The annual funding cycle forces attention to minutiae at the expense of substance. The subject is endlessly debated within AID with the invariable conclusion that long-term funding is desirable--till we get to the question of allocating resources for it. Rarely does any Bureau wish to give priority to extending the funding available to an on-going project at the expense of any new activity. Longer term funding is essential even though it has the public disadvantage of developing a larger pipeline. The only way to achieve it is to decide that increasing forward funding has a priority claim on funds. A prerequisite to a sensible forward funding system is better and more specific criteria for project termination. This puts a premium on improved project design. Properly forward funded projects will reduce paperwork, including the annual FROAG.

- Improved Project Design. While we have made considerable progress in specifying objectives and assessing needs through the introduction of a standardized evaluation system, too often the project design in technical assistance is not sufficiently thorough. By integrating technical and capital assistance in a sector framework, we provide the analytical setting through the sector analysis. Personnel can then concentrate on project design instead of project documentation, and make more extensive use of project design teams which combine sector and country expertise.

- Training. Arranging training for country participants is a maze of involvements and conflicts--complicated by roles played by several AID offices both in the field and in Washington, many other U.S. Government agencies, and contractors. These roles often duplicate or conflict with each other. In general, training should be placed in the sector, rather than a project context. We must recognize the mobility of the trained labor force in the developing countries as well as the fact that a better trained technician in the Planning Commission can have as much, or more, impact on an agricultural sub-sector as a better trained extension worker.

Responsibility for selecting participants and training institutions should be transferred to the recipient country. AID participants are only a small portion of the number of students which go abroad from any country. The others manage to arrange their travels and studies without the mechanism we supply to complicate the process. There will need to be exceptions in cases of short-term specialized visits. We also need to have a central back-stopping function to assist LDCs in their contacts with U.S. training facilities and to assure that these institutions provide adequate orientation. Much of this can be done by contract however. The different approach in the field and in Washington will yield considerable staff savings. We find it inconsistent with either our present, or our proposed objectives, to have 173 AID/W positions in Training, compared to 148 in PPC, 184 in Vietnam and 176 in NESAs.

- Reliance on Intermediaries. We recommend that AID operate essentially as a planning, funding, and monitoring agency, with projects implemented by intermediaries to the extent feasible.

Reliance on intermediaries for project operations should free up AID staff to focus on significant planning, programming and delivery system problems--without maintaining a large organizational apparatus. We recognize that a policy of increasing the use of intermediaries cannot be pursued blindly. Their services are more expensive, their experience more limited, and the turnover of their personnel makes it difficult to assure staff competence in technical issues in the setting of the developing countries. Increasing reliance on intermediaries will require better planning by AID and more precise definition of what we expect from intermediaries. This can be done best in the sector framework. While we should continue to build the capacity of intermediaries,

we should not shy away from continuing to implement projects directly during a transitional phase, where special circumstances warrant.

As we increase the use of intermediaries, and reduce direct hire overseas staff, we must devise (a) means to avoid taking on the overseas support responsibility; (b) contracts which do not involve us so deeply in monitoring and controlling operations that we add to staff requirements.

Capital Resources

As with technical services, capital should be provided in the context of sector objectives and, for some countries, general macroeconomic analysis (program loan countries). To provide an effective framework high quality sector analysis is essential. The loan paper can then define ways to implement the sector strategy.

AID now has a loan system, but with special variations in each of the Regional Bureaus. This lack of coordination has certain advantages but also creates difficult problems both for internal agency management as well as in our external relationships. Simplification and standardization are essential.

Combining implementation responsibility by sector will strengthen the prospects for standardizing basic implementation policies and provisions. Standardization should be accompanied by simplification-- of loan agreements, implementation letters and other loan documents. To be sure, some differences are dictated by country situations and any system must be sufficiently flexible to accommodate such differences. However, this claim is often advanced in support of different provisions which are only superficially related to basic country problems.

Good progress has been made in recognizing that capital assistance cannot only be limited to direct foreign exchange costs but more must be done if the sector approach is to function. Care must be taken not to build in a dependence on external capital in any sector but we can increase our flexibility in financing local and recurring costs and in utilizing intermediate credit institutions.

In line with our general policy of relying increasingly on LDCs we can increase reliance on LDC capacities to draft, negotiate, and implement contracts. Simplification and standardization of our own requirements is a prerequisite to a greater role for the borrowing countries. Our past involvement in these phases seemed to be a function

more of Mission or Regional Bureau interest than of LDC capacity to perform. We are aware that statutory constraints exist to our shedding contract approval responsibility for capital projects. We do not consider it a major deterrent to shifting contracting responsibility to the LDCs.

We need to renew the attack on eliminating procurement barnacles. We are aware of statutory constraints but are convinced that a great deal more can be accomplished within them.

Capital resources include all types of loans, housing guaranties and PL 480-Title I commodities. Some progress has been made in the past years to integrate the budgeting of these resources--but not enough. While the programming of Title I commodities poses special problems, the volume and terms of resources should be considered in the same process as the volume and terms of other capital inputs.

Strengthening of financial management and automatic data processing systems. Many of our financial and automatic data processing systems have developed over the years with external users as primary customers and with internal management needs coming in a poor second. Urgent attention should be given to developing an efficient, integrated system for financial planning, budgeting, accounting, reporting, and evaluation. The tools for such a system - competent people and sophisticated machines - are available. What is needed is the motivation and commitment. Participation in the system by all functional groups - program planners, budgeteers, operating managers, and accountants - is essential to meet real management needs.

The Manual Orders. Every large institution must have a record of its policy decisions and guidelines on established procedures. Our Manual Order system combines these functions to the detriment of both. Because of the sheer volume to which the Manual Orders have grown, revision is infrequent and, in many matters, they no longer reflect the Agency's policies.

The policy making mechanism which is recommended should enable us to initiate a formal record of policy decisions for the information of AID's staff. As with any policy, senior executives would be responsible for interpretation and for initiating proposals for change when appropriate. Policy should not be embodied in Manual Orders.

Procedural guidelines should be incorporated in handbooks to guide implementation and special operations. They should emanate from the office responsible for a particular function and, subject to legal clearance and comments from other interested offices, be issued for the use of the specialists concerned.

WE RECOMMEND THAT

1. AID establish clear management responsibility for programs, operations, policy formulation. Measures to achieve this should include:

- separating management responsibility for planning from implementation, with adequate provision for coordination at all levels.
- giving the management team responsible for implementation authority to decide implementation issues, subject to policy decisions, to assure expeditious action and necessary flexibility.
- assure equal emphasis in Missions between programming and implementation.
- establish the concept of project officer in Missions, with full responsibility for monitoring all aspects of project implementation and full authority within the Mission to help the host country assure the integrated use and timely arrival of U.S. inputs.

2. AID unify support functions and make them directly responsible to those having operational responsibility. Measures to achieve this should include:

- raising the level of management which deals with implementation issues and support services.
- improving the definition of implementation issues for policy decision.
- combining implementation functions by sector.

3. AID make sectors the primary focus of AID planning and organize implementation functions on a sector basis. The guiding criteria in selection must be the recipient country's priorities and our ability to mount an effort.

4. AID make the sector analysis the basis for policy review and allocation decisions. Loan papers and PROPs become documents defining action programs to implement sector objectives.

5. AID integrate the budgeting of all resources (loans, grants, PL 480) in the sector framework.

6. AID place technical assistance activity firmly in a sector framework and increase the recipient's responsibility for implementation by increased use of

- block grants for advisers and training wherever feasible.
- life-of-project funding.
- improve project design, including better criteria for judging project completion.
- binational foundations.
- intermediaries, where economically and technically feasible.
- host country institutions to select trainees and arrange for training programs and reorient training concept to make it sector rather than project oriented.

7. AID simplify the loan process, including such steps as

- standard loan implementation procedures.
- increasing local cost financing.
- increased reliance on recipients to draft, negotiate and implement contracts.
- developing master loan agreement with borrowers to cover standard provisions.
- eliminating procurement barnacles, within existing legislative constraints.

8. AID strengthen financial management and automatic data processing systems.

9. AID replace the Manual Order system with a record of policy determinations and a series of procedural guidebooks for specific functions.

VII. PERSONNEL

The capacity of the Agency depends on its people. If we cannot attract, stimulate and hold good people, we cannot do our job. The challenge to competence must be built into the work, but the manner in which we treat our staff is an equally important factor.

The comments the Committee received leave no doubt about the profound and widespread discontent with our personnel system. We recognize that our personnel system is part of two government-wide systems and therefore functions within constraints which cannot be easily altered. However, we are convinced that even within the standard regulations, our personnel system can be operated in a way which will make more effective use of our people and become an incentive to employment in AID.

Included amongst the measures which can readily be taken--

1. Training and career development. Our training program is inadequate and there is no concept of career development. It should not be the responsibility of the individual or even his immediate supervisor to request training but rather the responsibility of management to select those that should be trained. Successive assignments of selected personnel should be made with the specific objective of preparing them for eventual senior management responsibility. For others, successive assignments should be designed to deepen substantive experience. The prerequisite is a knowledge of our staff and a view of suitable career development for individuals.
2. Assignment of personnel on a worldwide basis. Despite good intentions the use of personnel is still compartmentalized and some staff members complete almost a full career in one Region. This neither prepares individuals for senior management responsibility nor does it help disseminate information.
3. Foreign service. There should be a standard requirement that senior executives should have at least one tour in the field. This applies to General Schedule and Foreign Service staff. We should not tolerate senior executives in regional or other bureaus controlling field operations without having firsthand experience. In the case of GS personnel unwilling to go overseas for a tour, maximum use should be made of extended TDYs to develop the necessary comprehension.
4. Intern Program. We should restore a young professionals' program which is the lifeblood of this agency. Without it we will have no young staff a few years hence.

5. Upgrading Skills. We should seek a much greater exchange of personnel with other governmental agencies and universities. Also, very much more can and must be done to provide in-service training opportunities with seminars here and in the field to provide our staff with a general framework of development. Secondly, many of our technical staff lose contact with developments in their own field because of the incessant pressure of operations. Provision should be made for regular periods of six months to permit personnel to refresh themselves in their technical specialities. Finally, AID, drawing on its own staff, can do much more to provide professional information and short-term training courses.

6. Operation of A/PM. There is considerable dissatisfaction with the operation of A/PM--some of which is, no doubt, the normal "noise level". We recognize that considerable attention has been given to streamlining our personnel operations. But the recommendations above for the whole Agency are particularly important for A/PM itself. Training in personnel procedures needs to be increased, field service should be mandatory for personnel officers servicing the foreign service complement, there is a need to simplify basic operating procedures, to rationalize paper flow, and streamline the organization.

Beyond this, emphasis must continue to be given to building a service mentality and orientation into A/PM's operations--an effort which placing A/PM under the operations wing of the Agency is intended to strengthen. (See Section IX.)

7. Special Groups. The Agency is under instructions to assure equal employment opportunity regardless of race, creed or sex. There are active plans to implement this objective and we received no comments to suggest that there is a general problem. A number of comments were received regarding the employment of women, pointing out in particular that there are no special provisions to facilitate their working. It was suggested that "in hiring to fill vacancies AID should determine whether the job could be filled on a part-time basis or on a full-time basis splitting one job between two part-time employees. Many more women would be willing to accept this type of employment; many married employees who resign upon the birth of their children would be able to continue their careers. HEW, Peace Corps and AEC have successfully implemented programs of this nature."

We endorse this suggestion and urge its early implementation. A limited number of offices in AID offer part-time employment and have attracted high quality personnel.

The Committee had neither the time nor the competence to evaluate the functioning of the foreign service panels. We can, however, report widespread dissatisfaction. From personal experience it is clear that the system is very expensive in terms of time and money and needs revamping. Staff promotions depend on the eloquence of the supervisor and the correct choice of virulent adjectives in adequate numbers. It is a delusion to claim that the system compares performance of individuals--the system compares essays. Since promotions are scarce, the war of superlatives has escalated over the years to the point that to describe anyone's performance as "average" is thought to be a serious criticism. While we cannot prescribe the nature of the change, it is clear that change is necessary and urgent. The system must be refocused so that those who decide on promotions are the persons who know the performance of the individual personally and who have some management responsibility for it.

VIII. FIELD OPERATIONS

The nature of the AID field operation must change to reflect the revised concepts and operating procedures in the preceding sections. While Missions are in transition as a result of previous studies, they still reflect the purposes and organizational structure appropriate to the program and relations of a decade ago.

The field office has two basic responsibilities

- . program development and coordination with the host country and other donors
- . monitoring the utilization of U.S. resources

and both must be defined in the context of over-all AID objectives, keeping in mind that AID programs operate under the authority of the Ambassador.

In the past a great deal of mission staff time and analytical talent was devoted to preparing a country development plan and designing an appropriate policy framework for achieving plan objectives. The emphasis in many countries was on "gap filling" -- macroeconomic analysis designed to quantify balance of payments deficits and investment shortfalls. Capital projects were thought to have little relevance except as a funnel for resources and virtually any sound project, in almost any field was suitable for financing. Technical assistance projects frequently had no relation to capital assistance and were spread over many fields.

Senior mission staff were faced with massive annual submission requirements from Washington which called for knowledge of all aspects of the country, even when mission expertise might be limited to one or two areas. The exigencies of the budget cycle, plus the complex process for loan and technical assistance project approval generally consumed the bulk of the time. Programming and obligating funds became the test of success rather than management of existing programs.

The life style of missions also has not yet been fully adjusted to current realities. The "high profile" which is so often objected to obviously is not a function of numbers. Even in the largest missions the total number of employees do not constitute an overwhelming share of the foreign community. The "low profile" is a function of style -- the degree of involvement in planning, the aggressiveness with which policy changes are sought, the extent to which the U.S. exercises leadership in consultative groups and in the country on development issues. However, there is no doubt that our overseas life style has contributed to the charge of a "high profile." Often our mission is

in a conspicuous building; we have staff housing serviced by large staffs of locals; we provide commissaries, and an extensive motor pool. Inevitably contractors demand the same services even though their overseas salaries are tax free to compensate for the hardships of LDC living. Some of these amenities were justified in the past by the absence of local facilities and in some countries they are still justified on that basis. However, in many countries local services are available today and other foreigners live well on their own devices. Increasingly AID personnel should do likewise so as to reduce AID direct hire support staff.

Sector Orientation and Supplementary Measures

While placing our program in sector context will help, it is not a panacea. Measures in other areas will also be required. These include:

- Sector or sub-sector studies and design of related assistance strategy. Sector studies and the design of the related assistance strategy will be largely undertaken by the host country with TDY staff from AID/W and outside experts supplementing field office capability. Once the sector strategy is approved by AID/W, then additional specific project design may be necessary. Here again field missions will rely upon TDY help from AID/W and help from private contracts.
- Project/program implementation. While AID has progressively increased attention to program implementation, further steps are desirable. Successful implementation involves not only good management of resources e.g., timely construction of the physical facilities or training participants, but also addressing the essential development problem which is the heart of the project. The understanding of how the project fits into the sector strategy, how it relates to other activities in the sector, how economic policies and social habits affect project operations, and to what uses its product can be put are considerations which require both senior management attention and continuous review. The latter will be the principal function of the project officer.
- The role of project officers. In conjunction with (a) LDCs having greater responsibility for project management and support and (b) greater use of intermediaries, AID should establish project officers for each major project. The project officer should have full responsibility for monitoring all aspects of project implementation and full authority over all U.S. resource flows --
DG, IL, PL 480 -- necessary to achieve the program

or project objectives. In time much of the present divisional superstructure can, and should be done away with and the project officer should have direct access to the front office in the mission.

- The role of intermediaries. In an effort to make use of the greater pool of skills of U.S. universities and the private sector, implementation of field projects will be primarily carried out by intermediaries. These intermediaries either will be (a) OPEX personnel contracted directly with the appropriate host country institution as advisers or operating personnel or (b) in the case of longer-term institutional development via a host country contract between the U.S. and the local institution.

- Centralization of Controller functions. As the nature of AID field operations changes -- sector concentration, implementation by intermediaries, multi-year funding reliance on the LDCs for project management and support, concentration of program review and appraisal -- the responsibilities of field controller staffs should also be shifted to the LDCs and the intermediaries, or centralized in Washington. Considerable staff savings should result from this centralization. With greater attention given to program implementation, accounting and fiscal analysis should concentrate on expenditures instead of obligations. Since expenditures would be made primarily in Washington, centralization of these accounting functions should not be troublesome. Fiscal support of the reduced direct-hire field staff should either be arranged through Embassy facilities, or also centralized in Washington. Fiscal management advice and assistance can be provided on a TDY basis.

- Use regional support offices to assist with program design and implementation. In-country field staffs can be kept small and more immediate backstopping can be provided from regional support offices. This kind of regional backstopping is now provided for all loan activities in Africa by two regional offices, one in Abidjan, Ivory Coast covering over twenty countries in Central and West Africa and the other in Nairobi, Kenya covering over ten countries in East and Southern Africa. These offices should be changed to a functional focus covering both technical and capital assistance and provide assistance to country field operations for project design; monitoring; and evaluation.

- Simplifying regional mission structure. In a few areas we have regional missions (e.g., ROCAP and East Africa) in addition to country missions. These arrangements have led to duplication and inadequate integration of our inputs. Where regional offices are warranted, they should be based on management judgments. It makes little sense to have a mission assigned to regional institutions and country missions to the countries with which these institutions deal and then to carefully circumscribe the staffs of each. Where regional offices are justified -- and they can be justified in areas with strong regional institutions, where there are a series of small country programs, or where our activities have a regional character -- there should be a single management focus for all activities in the area with subsidiary units dealing with bilateral activities where this remains appropriate.

- Clear lines of responsibility between AID/W and the field. At the present time field mission chiefs report to regional assistant administrators. This gives the appearance of clear lines of responsibility. In fact there are many budgetary spigots and support functions over which the regional assistant administrator has no immediate control and for which there is no clear-cut line of command up to the top levels of the Agency so that a quick policy or operational decision can be obtained.

Projects proposed outside the regional bureaus are often outside the areas of concentration which have been officially negotiated/agreed to with the host countries as representing their top priorities. Field mission manpower requirements are naturally based upon the program developed between the mission and the host country.

In some countries pilot programs addressed to developing new approaches to a particular development problem will be underway as part of the worldwide problem solving efforts stimulated by TAB in coordination with other donors and foundations. The missions will have varying degrees of monitoring/liason responsibility for these -- very little in the case of an IRRI, perhaps more in a project such as motivations of fertility behavior in which the U.S. may have played a leading role. Such activities are essential but they must be agreed to, and implementation implications worked out on a joint basis, rather than superimposed on existing activities without regard to demands on limited field staff for reporting, monitoring or managing projects.

-- Reduction of the reporting burden on our shrinking field staff, as rapidly as possible. We believe it both desirable and possible to suspend immediately all non-financial formal reporting requirements until

- . a determination is made as to which reports are necessary
- . Bureau requests for like information are standardized.

-- Reduction of support services. Field staffs should rely, to the maximum extent practicable under local conditions, on the available facilities. Whenever feasible, we should contract with local organizations for services instead of providing such services through direct-hire personnel. Every direct-hire service person adds further direct-hire requirements for administration and supervision. Institutional intermediaries, including universities, should provide their own support services and accept host country contracts. To assure consistency in support services, and their management, AID's central management staff must become much more active in establishing guidelines and supervising field support operations.

Mission Organization

There is no single structure suitable to all missions and it would be a disservice to prescribe one. This flexibility should be exercised, however, within clear guidelines as to scope of activity, support services and supervisory layers.

Field operations will be basically of two types, though each will have its variations.

1. The larger countries such as India and Indonesia, where there will be programs in core sectors plus the concern with major resource transfers, under consultative group aegis.

2. Other countries, where U.S. technical and capital assistance will concentrate on a limited number of core problems.

There probably is an inverse correlation between the AID program and the size and type of field staff needed to support the program. In India, for example, it is possible to successfully provide large amounts of capital lending, technical assistance via block grants, and PL 480 with a relatively small staff because India has a high degree of competent institutional and managerial capability. In

smaller countries a larger input of direct-hire and contract personnel may be necessary to implement a modest sector program because of the more limited managerial capacities.

The AID representative and his immediate staff must have the professional competence to understand the host country situation. In the case of an India-type program the AID representative and his immediate staff must be able to handle professionally the economic studies and analysis prepared by the IBRD and the consortium, as well as to follow and understand the interplay of host country institutions and competing interests in the planning and implementation of key host country economic policies. This kind of in-country contact and assistance policy formulation cannot be handled by occasional parachutists from AID/W.

Where U.S. assistance is concentrated in support of a sector strategy, the AID representative, and his small immediate staff should be knowledgeable about the recipient country and donor efforts in that sector.

The extent of sector staff required obviously depends on the size and complexity of the ongoing program. But with implementation monitored by project officers, central support staff can be small and sector analytic talent will rarely be justified in large numbers in any one country. In virtually all cases loan officers, engineers and technical advisers will service field operations either out of Washington or regional offices. Whether located in a country or on a regional basis, the technical backstopping services must be organized by sector rather than by function.

WE RECOMMEND THAT

1. The nature of AID field operations be changed to reflect the evolution of the development assistance during the last several years including:
 - (a) greater LDC insistence on and competence in determining their priorities and to manage assistance programs;
 - (b) greater reliance on international organizations to provide over-all country economic analysis and greater use of consultative groups and consortia as multilateral frameworks to address LDC economic development policies.
2. AID base country activity on agreed sector strategies to
 - . assure continuity in programs
 - . permit recruitment of project officers on a long-term basis
 - . provide a basis for effective delegation to the field.

3. AID streamline the management and operation of field offices by:

- . Relying more heavily on the host country to prepare sector strategies, with the small field staff supplemented by TDY personnel.
- . Establishing project officers with full responsibility for monitoring all aspects of project implementation and with full field authority over U.S. inputs.
- . Utilizing intermediaries to the maximum extent feasible.
- . Centralizing the controller function in Washington, with increased attention to expenditures rather than obligations.
- . Establishing regional field offices to assist with project design and monitoring.
- . Simplifying regional mission structure to eliminate overlap with country missions.
- . Establishing clear lines of responsibility between Washington and the field to assure that both country programs, research activities and innovative pilot activities are planned for in a single framework.
- . Reducing reporting requirements.
- . Reducing direct-hire support services.

4. Field office organization should have maximum flexibility based on the type and size of the U.S. assistance program, and the differences among LDCs in their institutional and managerial capacity. The direct-hire field staff should be small and concentrate on three basic functions:

- . program development
- . coordination with the host country and other donors
- . monitoring AID-financed activities.

IX. ORGANIZATION

Background

AID's decentralized, regional organization reflects the concepts of assistance and the role of the United States in assistance prevailing when AID was founded in the early 1960s.

AID was set up to directly implement a large diversified program in a variety of countries, using fully staffed field missions. AID was expected to take an active role in encouraging countries to undertake social and economic reforms. It was expected to stimulate long-term development planning by the host countries and undertake country programming to support (and sometimes guide) host country planning. AID's emphasis was on filling resource gaps and removing policy obstacles to growth country by country.

These considerations prompted establishment of decentralized regional bureaus built around the country programming system. Each bureau had country desks, planning staffs, loan and technical assistance backstopping, and personnel and management offices needed to run large programs in a number of countries.

The regional bureau system has served us well. It conveys advantages of flexibility and assures that the entire assistance process from planning to implementation for a given country remains under the supervision of one person. As in any decentralized system there are disadvantages. There is duplication with the bureaus having separate loan offices, technical offices, engineering staffs, and management offices. There is lack of communication; agriculturalists in the Latin American Bureau have little knowledge of similar work in the Africa Bureau. In addition, it has not been found practicable to vest the regional bureaus with all the authority needed to carry out programs in their areas. Central services for training, contracting, and procurement have been set up. In recent years, there has been a gradual trend toward building stronger, central offices--for policy and resource allocation, technical assistance and the central administrative offices. Personnel operations were centralized a few years ago. This trend has continued to the extent that the staffs of the central offices in Washington now outnumber the regional bureaus by more than two to one. While in theory giving the regional bureaus full responsibility for programs in their areas, AID has, in fact, been spreading the responsibility between the regional bureaus and the central offices.

AID today is a halfway house between the strong regional bureaus envisaged by its founders and a more centralized structure based on functional specialization. This halfway position is expensive in terms of personnel and management time.

AID's assistance program has also changed markedly. The number of countries being assisted had dropped from 82 in 1963 to 42 today. The size of the program in the remaining countries has dropped. We are moving out of country programming. We are reducing the size of field missions. We are placing more reliance on host countries to set their assistance policies and plan and implement projects. We are no longer the major filler of balance of payments gaps. We are focusing our assistance in sectors. We are emphasizing innovation in attacking key development problems which affect many countries. We want to give increased attention to development policy issues.

These changes in AID's role plus the drift away from the strong regional bureau structure of AID's early years clearly poses the question: Are organizational changes needed? The Committee would like to have concluded that the revitalization of the Agency could be accomplished without any seismic rumbles on its organizational chart. But we conclude that accomplishing the purposes recommended for AID in this report requires major structural change.

The existing structure is not responsive to our needs nor supportive of our aspirations; it was designed for different times and different programs and it requires much too large a staff to man it.

We have avoided intricate organization designs and only sketched the outlines of a revised organization. Not every function of the Agency is discussed or even listed. However, we have sought to provide enough information so that the intent of the new system will be clear enough for approval, or rejection, in principle. The attached organizational chart is illustrative; one way to describe our objectives. There are, no doubt, others. However, the underlying principles are clear and can be summarized briefly:

- Clear lines of authority. Responsibility should be clearly fixed; authority must match the responsibility.
- Broader participation in decision making. Senior management should participate in major program and policy decisions.
- Separating implementation from program planning. Both need senior management attention.
- Realistic span of management control. The number of offices reporting to the Administrator or to Assistant Administrators should be limited to a number which can be effectively supervised.
- Unification of implementation by sectors. This will save staff and expedite action.

The Internal Decision Making Mechanism

A. The Administrator's Council

We propose an Administrator's Council. The Council would function as an advisory board to the Administrator and would be the forum for discussion of such major issues as:

- the annual budget
- analyses of major policy issues
- sectoral strategies and assistance proposals
- implementation policy issues
- U.S. position in international forums
- any other issues which the Administrator wishes to place before the Council.

The Council is quite different from a senior staff meeting. It is not an information exchange system; it is a working body whose deliberations are intended to provide the Administrator better information and a wider range of views on issues which he must decide. By involving the full senior staff, it would insure that decisions benefit from the multiple disciplines and varied experiences which the senior staff represents. It would insure that decisions made are communicated across all the Agency's units. It would speed decision-making by ending the need to subject policy and implementation proposal to intra-bureau clearance. Bureau proposals would be sent directly to the board for discussion and decision.

The Council members would be chosen by the Administrator among his senior staff. The permanent group must be kept small if it is to be effective. Other participants could be invited on an ad hoc basis appropriate to the subject under discussion.

B. Program Approval Process

The Administrator's Council would be responsible for reviewing country sector analysis and assistance strategy. Subsidiary committees may be needed to review in detail the individual loan and technical assistance projects proposed to carry out an assistance strategy.

We therefore recommend the establishment of a Program Approval Committee to review PROPs and loan papers before they are submitted to the DLC.

This Committee should be chaired by the Deputy Administrator and consist of a select number of Assistant Administrators. It should be a working and decision-making body whose principal function would be to assure that proposed programs support the sector objective and that the proposed project design is consistent with AID policies. Loan papers and PROPs will continue to require different formats--because of legislative provisions and other factors--the substantive analysis should be to the same standards and address the same concerns in both types of documents.

The External Approval Process

1. Development Loan Committee

The DLC has not met in years. Interagency loan approval is obtained through the Development Loan Staff Committee. Other agency representatives are below Office Director rank with the result that an immense amount of time is spent arguing about operational details which it is AID's responsibility to deal with. The purpose of the DLC was to assure policy level coordination. To restore this purpose, we propose that the DLC be convened at the Assistant Secretary level. The DLC would be chaired by the Administrator or his Deputy and staffed as at present, by the Office of Development Finance. The DLSC would only meet if staff work requires interagency coordination.

2. PL 480

Review and approval of PL 480 programs is slowed by the lack of an effective interagency approval process. The ISC, which is supposed to approve PL 480 programs, is composed of staff level officers without decision-making authority. We recommend that AID propose raising representation on the committee to the Assistant Secretary level.

Separation of Implementation from Program Planning

AID should separate responsibility for project implementation and operations from policy formulation and program planning. The implementation and technical backstopping functions now dispersed among the regional bureaus should be centralized in a single operations unit reporting to the Administrator through a Coordinator for Operations.

We believe that the consolidation of implementation functions has the following advantages:

1. Consolidation of projects by sector and sub-sector encourages specialization, communication, and professionalism. It should result in higher quality projects and should permit recruitment of higher calibre technical personnel.
2. Consolidation permits central review and more rapid and uniform introduction of new implementation procedures; it permits a concentrated effort to build up intermediaries in various fields.
3. Consolidation avoids duplication of loan, TA, and management staffs; it will result in marked personnel reductions and cost savings.
4. Relieving regions of implementation frees them to concentrate on program planning and development policy issues.
5. Consolidation insures that support services such as procurement, training, and personnel are responsive to needs of implementation; it will reduce procedural bottlenecks and make for more efficient implementation.
6. Consolidation and grouping of projects by sector gives Mission Directors clear knowledge of where organizational responsibility for solving implementation problems lies. This is diffused under the present system.

In sum, consolidation of implementation has clear advantages for an agency which wishes to: reduce emphasis on country programming; concentrate on sector programs; increasingly turn implementation over to intermediaries; reduce staff; gain a better grasp of policy issues and be a more effective spokesman for development; and improve the overall effectiveness and efficiency with which it delivers services.

There are also risks to this approach. There is a danger that delivery of services to a particular country may slip because the implementors do not attach high priority to the projects there, but this danger -- by definition -- can affect only a minor portion of AID projects. There is always concern that operations which are not controlled by the Regional Bureaus will take on a life of their own, with independent objectives. This concern is heightened by memories of the profoundly unsatisfactory operations of the ICA organization.

However, after careful deliberation we concluded that the benefits of consolidating operational functions would far outweigh the costs. Moreover, we are convinced that any analogy between our proposals and the ICA experience is inappropriate. Responsibility for all program

development, design and approval remains firmly in the Regional Bureaus, the sector structure is a further safeguard against diffusion of activities, and adequate coordinating mechanisms are recommended to assure that implementation will serve - not dominate - agreed policy and program objectives.

A. Consolidating Operations

The Operations Unit of AID would oversee the implementation of all projects, including interregional projects, and would administer supporting services such as procurement, contracting and training.

Centralization of these functions under a senior officer would

- . insure high level attention to implementation
- . permit significant staff savings
- . simplify implementation procedures
- . permit greater interchange of technical knowledge
- . reduce the distinctions between loan and grant projects
- . help to assure that implementation is subservient to policy objectives and program purposes.

The core of this part of the Agency would be organized by sector to assure integration of resources (DG, DL and PL 480) and consistency in policy application.

B. Planning and Program Development

The regional bureaus, less their support offices (management, institutional development, capital development) would retain full control over project and program formulation and design, until the activity is approved and ready for implementation. Thereafter, responsibility shifts to the operation wing. The regional bureaus retain a liaison capacity to keep abreast of the pace of implementation.

The regional bureaus also are the prime repository of knowledge for the countries in their areas and remain responsible for country level liaison with the international financial institutions. They would concentrate on developing meaningful sector assistance programs and policies, drawing on technical personnel in the operations bureau or technicians contracted for by the operations bureau. Freeing the

regional bureau from concern with implementation should permit more professional involvement on a wider range of development issues than at present. It also should encourage more thorough, professional formulation of sector programs and projects.

In addition to the regional bureaus, the policy and planning side would consist of central offices responsible for budget and program coordination; for development policy analysis and liaison with international organizations; for the development of innovative programs and for special programs. Details of these functions are discussed below.

Outline of a New Organization

The attached charts show the relationship of major units in the illustrative reorganization, the narrative describes the major purposes of these units. This is only intended to provide enough information for a decision principle; it is not a formal definition of functions.

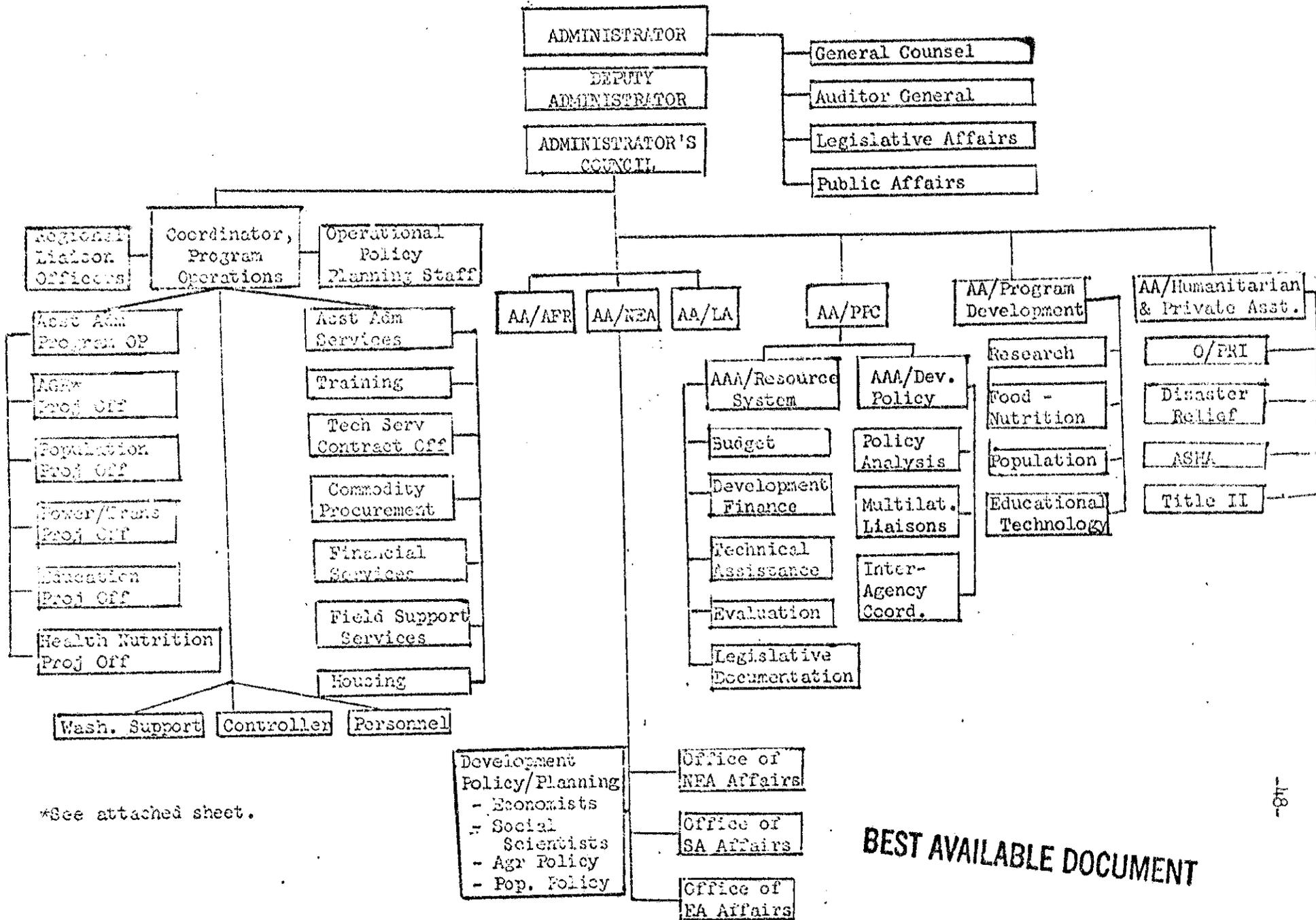
A. Regional Bureaus

The three regional bureaus will deal with Africa, Latin America and the Near East and Asia. The first two would have the same geographic responsibility as at present, the latter combines NESAs and EAD.

The regional bureaus would be smaller as implementation and management functions are centralized. Desks would consolidate. The development planning staffs would be built up. The regional bureaus would be responsible for country sectoral analysis and for assembling the teams to design specific projects or programs. The regional bureaus would be responsible for obtaining approval of country sector strategies from the Administrator's Council and to obtain the necessary approvals for loan and technical assistance proposals. They will also be responsible for U.S. participation in international consultative groups. Their small operations liaison staff will be responsible for coordination with the program implementation offices to assure they are current about progress in their programs and to flag any delays in implementation.

Bureau for Humanitarian and Private Development Assistance

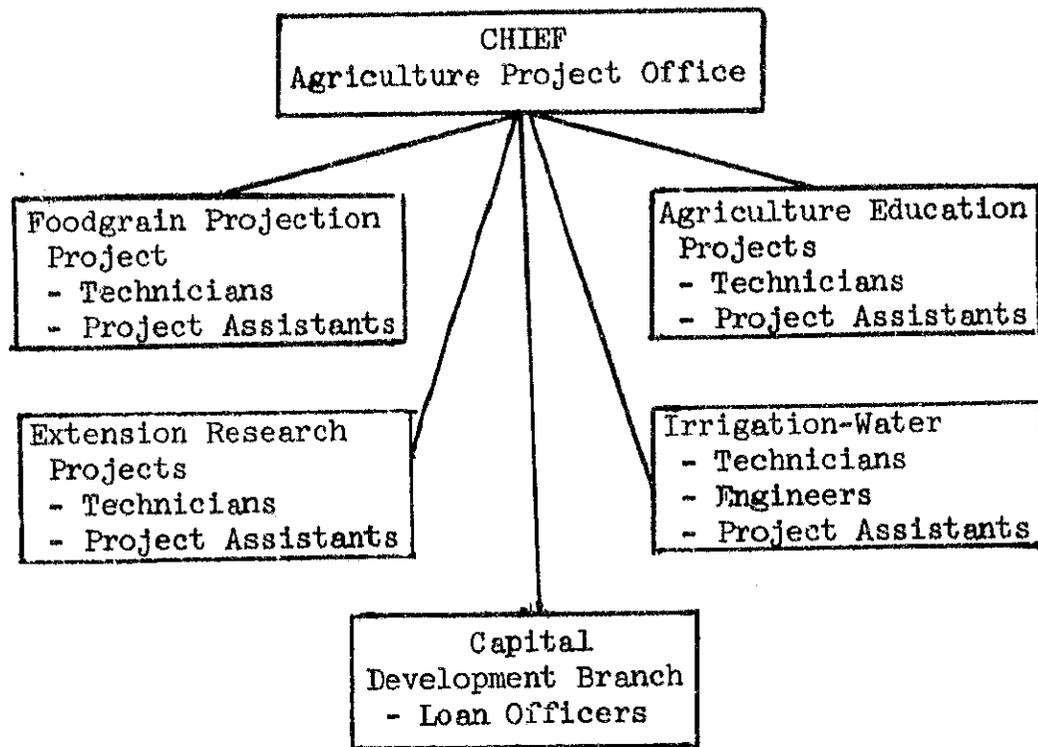
This office would manage the special programs which involve voluntary agencies, private development organizations and humanitarian assistance. It would include disaster relief, American schools and hospitals, the Office for Private Overseas Programs, Title II and the World Food Programs.



*See attached sheet.

BEST AVAILABLE DOCUMENT

DETAIL OF AGRICULTURE PROJECT OFFICE



B. Program Planning and Resource Allocations

These functions would be discharged by two Bureaus, as described below:

Bureau for Policy and Program Coordination

This bureau would be responsible for two areas of activity. One element would be responsibility for the resource allocation system and the related decision-making process. This would include:

- . the budgeting function; principally the work of PPC/RS plus the budgeting functions of the Controller. It would encompass all resources including PL 480.
- . coordination; with regional bureaus, security assistance, and OMB.
- . central point for processing development loans and technical assistance projects to assure consistency with policy and sector objectives and to serve as Secretariat for the Program Approval Committee.
- . evaluation; monitoring the non-capital project evaluation system; installing a capital project evaluation system; assuring periodic evaluation of major policy issues or program areas.
- . legislative presentation.

The second element would involve providing leadership in formulating AID's position on major development policies, in relations with international development institutions on policy issues; in representing the Agency in policy discussions within the U.S. Government; in providing a pool of analytical talent to support improved analysis of trade and financial matters as well as major development issues.

Bureau for Program Development

This Bureau is not simply a renaming of TAB. Its functions would be much more selective and closely identified with future Agency needs as identified through host country sector strategies. It should concentrate on developing new knowledge and methods to attack key development problems to which the Agency's assistance programs will be directed. It should be organized around specific problems--e.g., food grain production, population control--rather than by broad

sector. Its work--research and pilot programs--must, wherever feasible, be carried out in developing countries. Its operations--aside from pilot projects or others directly related to developing new approaches--should be transferred to the operations unit.

C. Program Management

The Coordinator for Program Operations would have responsibility for the program implementation of AID. He would (1) oversee the backstopping and implementation of all technical assistance and development loan projects; (2) administer the supporting services required for loan and technical assistance implementation.

The following units would compose the program management unit:

1. Assistant Administrator for Operations

This Bureau would be the heart of the operations side of AID. It would have responsibility for monitoring the implementation of all Agency technical assistance and loan projects. The bureau would be divided functionally, e.g., an agriculture projects office, a population projects office. These offices would backstop both loan and grant projects in their fields.

2. Assistant Administrator for Procurement of Services.

This is the chief services bureau of the Agency. It would have responsibility for procuring the services related to overseas programs--technical services (contractors-intermediaries), participant training (OIT), and commodities (procurement). It would include the Controller's Banking Branch to handle financial documentation, a field support unit to backstop mission management activities, and the office to backstop the housing guaranty program.

3. Operational Policy and Management Planning Staff

This staff works directly under the Coordinator for Program Operations to assist him formulate operational policies and procedures.

4. Regional Liaison Staff

This staff, attached directly to the Coordinator's office would be responsible for liaison with the regional bureaus. They would be responsible for keeping track of region-wide implementation progress and following problems of special importance to the region.

5. Other Functions

Personnel and Controller functions are self-explanatory. Washington support services are the housekeeping functions in AID/W. We would add the responsibility for the data services function, for the AID Reference Center and other document collections and for any statistical reporting functions.