

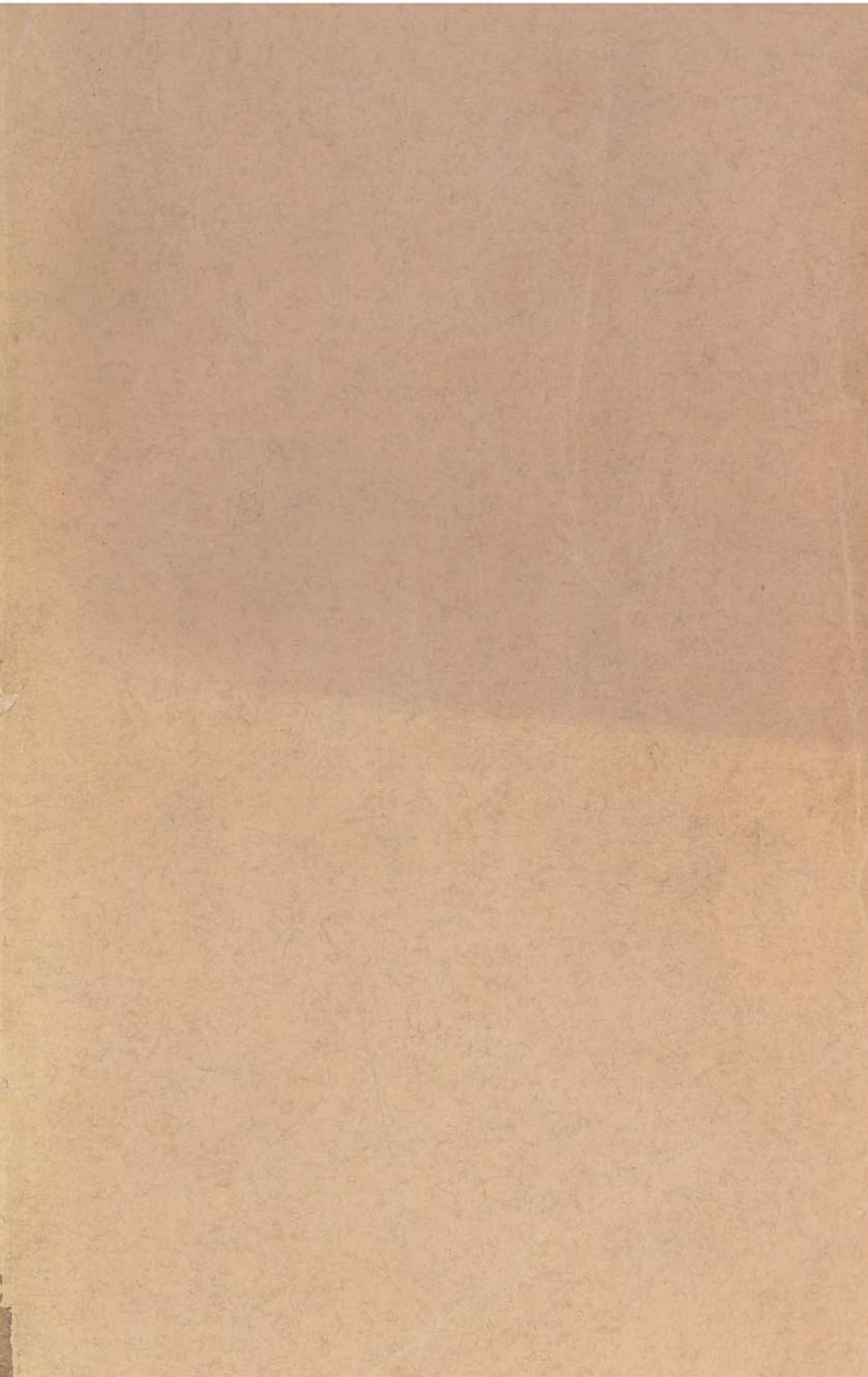
**75 ADMINISTRATIVE AND MANAGEMENT
PROBLEMS IN PROVIDING FOREIGN
ECONOMIC ASSISTANCE**

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
FIRST SESSION

OCTOBER 6, 1981

Printed for the use of the Committee on Government Operations





**AID'S ADMINISTRATIVE AND MANAGEMENT
PROBLEMS IN PROVIDING FOREIGN
ECONOMIC ASSISTANCE**

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U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1981

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AID'S ADMINISTRATIVE AND MANAGEMENT PROBLEMS IN PROVIDING FOREIGN ECONOMIC ASSISTANCE

TUESDAY, OCTOBER 6, 1981

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks and Dante B. Fascell.

Also present: Subcommittee staff: David Holt, Robert Moreno, and Mary Virginia Heuer, professional staff members; Linda Shelton, office manager; Mary Alice Oliver, secretary; full committee staff: John M. Duncan, minority staff director; and Tom Houston, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN BROOKS

Mr. Brooks. The subcommittee will come to order.

Today we resume our review of the Agency for International Development's management in providing economic assistance to developing countries throughout the world.

Prior hearings by the subcommittee have focused on the operation of AID missions and offices overseas and on the adequacy and effectiveness of its internal audit capability.

Over the past two decades the American people have provided billions of dollars in economic assistance to needy countries and people throughout the world. This assistance has helped in furthering the goals of representative government and development of sound economic systems.

However, at a time of Federal budget cutting we must insure that the diminishing funds and resources for economic assistance are managed in the most efficient and effective manner possible.

AID has primary responsibility for the difficult task of managing our economic assistance programs. Earlier subcommittee reviews have indicated some serious problems in this area. GAO has issued a number of reports describing many management problems.

Some of the areas we will focus on today are the timelag between project design, project approval, and final implementation; the ability of AID to effectively monitor host country project implementation; and the process of reviewing and evaluating projects in order to learn what succeeds and what does not.

The subcommittee really wants to know how the Agency is presently dealing with these problems. We are also interested in steps AID is taking to improve its audit and investigative capability.

We will hear testimony from a representative of the GAO and the Administrator of AID.

Our first witness today is Samuel W. Bowlin, Associate Director of the International Division of the U.S. General Accounting Office. Our new head of such will be inaugurated at 11 o'clock this morning. I hope we can make it over there. It will be in the Senate.

I think he is going to have the Vice President swear him in instead of the President. I do not know about that; that is just a different procedure.

Mr. Bowlin has been with the GAO since 1960 and joined the International Division in 1964. He assumed his present position in 1980. He is a graduate of Virginia Commonwealth University and a CPA. During his career with the GAO he has received several awards.

Accompanying Mr. Bowlin is John P. O'Carroll, a senior evaluator with the International Division at the GAO.

Gentlemen, we welcome you here today and look forward to your testimony. Mr. Bowlin, you may proceed with your prepared statement.

**STATEMENT OF SAMUEL W. BOWLIN, ASSOCIATE DIRECTOR,
INTERNATIONAL DIVISION, U.S. GENERAL ACCOUNTING
OFFICE, ACCOMPANIED BY JOHN P. O'CARROLL, SENIOR
EVALUATOR, INTERNATIONAL DIVISION**

Mr. BOWLIN. Thank you, Mr. Chairman.

I would like to highlight the statement and supply the full statement for the record.

Mr. BROOKS. We will accept the statement for the record, without objection; and the gentleman may proceed as he desires, remembering that Mr. Bowsher is to be sworn in at 11 o'clock.

Mr. BOWLIN. Thank you.

We appreciate the opportunity to provide the subcommittee with comments on AID's operations relative to the foreign assistance program.

In our testimony today we are emphasizing the results of certain of our reviews concerning several AID management practices.

U.S. efforts to achieve assistance goals have met with successes, but improvements can be made in program planning and project implementation in our view.

We see indications that the AID project implementation process has slowed down. The amount of obligated but undisbursed funds—or the pipeline—has increased from about \$1.5 billion to about \$5 billion over the last 6 years.

In our recent review of AID's program to Egypt we found that of the more than \$357 million committed to a selected group of projects during the past 6 years only 17.5 percent has been spent. A further analysis showed that about 44 percent of the funds obligated in 1975 and 1976 and only 21 percent of those obligated in 1977 had been disbursed. Only about 6 percent of the moneys obligated in 1979 and none of the 1980 obligations were disbursed as of September 30, 1980.

We believe such information is symptomatic of AID management problems which could cause shortfalls in actual project financing and/or delivery of previously committed development assistance.

With your permission, Mr. Chairman, we would like to place in the record brief summaries of a number of studies which we have undertaken during the past 3 years on segments of AID operations.

Mr. BROOKS. Thank you. We will place them in the record, without objection, after your prepared remarks.

Mr. BOWLIN. I would now comment on some of the problems we have reported. The significant pipeline buildup occurs partially because of AID's tendency to overemphasize those activities which deal with planning, designing, and starting new projects, which lessens emphasis on development assistance to recipient countries.

We discussed this overemphasis in several reports. However, AID has been slow in shifting attention to project implementation.

For example, our 1979 report on development assistance in West Africa noted that AID's project design process is complex and time consuming. In some cases AID spent 2 to 4 years in project design, often with less than intended results. We have noted in general a project life can range from 7 to 10 years.

We have said that the Agency can improve management by assuring that more attention is given to major project implementation requirements. We have pointed out that although AID has known of some of the project implementation problems it has not concentrated sufficiently on appropriate solutions.

AID's own studies have shown that because of the relative emphasis on obligation of funds project implementation has suffered. AID has agreed with our recommendations to reemphasize the need for adequate implementation planning and to improve training for AID staff who plan and implement projects. We understand that AID is currently examining ways to improve in this area.

Often recipient governments lack the management and technical resources to plan and provide support for AID-sponsored projects. We have determined that long project delays in the Sahel development program in West Africa, for example, could be traced to inadequate project support from host country governments.

On a broader scale, we have also reported that the absence of effective financial management in developing countries is a major obstacle to optimum use of internal and external resources available for development in the Third World.

This year we reported that many projects in one country were delayed because the host government failed to provide either full-time codirectors, adequate staff support, or sufficient logistical assistance. These historical problems continue to slow AID project implementation.

Contracting weaknesses also hamper project implementation and thus the delivery of assistance. For example, in 1978 we reported that inappropriate or questionable practices during contract negotiations and award were sometimes occurring.

AID also used noncompetitive contracting exceptions extensively. We noted that one-third of the contracts were awarded noncompetitively under the predominant capability exception, largely based on justifications prepared by technical officers. These exceptions were seldom challenged by officials at Agency review levels.

In March 1981 we reported that contract delays in Egypt occurred because of complicated AID procurement procedures in selecting contractors, the need for host country project implementing agencies to learn AID procurement procedures, and the difficulty in recruiting U.S. contractors to conduct business there.

Mr. BROOKS. Excuse me, Mr. Bowlin. I heard on the radio as I came in early this morning that President Sadat is now in the hospital.

Please proceed, Mr. Bowlin.

Mr. BOWLIN. We have stated that AID's reporting system does not identify the total amount and the types of commodities purchased for financed projects. Progress has been slow in this area because AID has said that procurement is managed separately for each project and believes that information on these activities is not needed. Specific efforts have been directed to correct some of the problems noted, but we believe further attention is warranted.

Turning to monitoring, it is AID's policy that recipient countries undertake the implementation of development assistance projects to the maximum extent possible. Greater reliance on host government implementation of AID-financed projects does not, however, reduce AID's responsibility to assure the efficient use of its resources. Therefore AID project managers retain the responsibility to monitor these projects to assure that needed goods and services are delivered efficiently and on time.

Various audits of AID activities conducted in recent years, however, have shown weaknesses in monitoring projects and in keeping abreast of the multitude of contractors and host government agencies.

In July 1980, for example, we reported that monitoring of project implementation continued to be a problem. Problems included lack of host country contract audits, inadequate AID postaudits of commodity transactions, and limited AID reviews of contractor vouchers prior to payment.

Our June 1981 report noted that in some cases disaster assistance projects were not adequately monitored, with the result that recovery in certain countries suffering from the disasters was hampered.

A cause for poor monitoring has been the long delays in providing adequate guidance to the responsible project officers. AID has not yet issued complete guidelines.

In June 1980 it issued guidelines for project officers to manage direct AID contracts and grants, but guidelines for the monitoring of the significant numbers of host country contracts have not yet been issued.

AID attributes some of its management concerns to staffing problems in Washington and overseas. We understand that AID expects to implement a new position classification soon to encompass its diverse personnel.

The Agency is reviewing many personnel matters, including the size of mission staffs, the objective criteria for staffing decisions, in-house staff training, the need for technical skills, and the assignment of foreign service personnel to Washington.

We believe the Agency should also focus on interagency service agreements, personnel services contracts, and contracts with private firms.

To conclude, Mr. Chairman, we believe a link can be drawn between AID's pipeline and the less than effective use of development assistance funds.

The availability of people is sometimes used for obligating funds and starting projects with not enough emphasis in insuring that appropriate use is made of these funds. In this process however, not enough time remains to establish adequate baseline information to measure development progress and to identify and correct problems to insure that project implementation is adequately carried out and to perform evaluations to verify development progress and increase chances of success. Thus, problems which are historically not unique throughout the developing countries continually recur.

We believe that progress is being made to improve the substance and administration of the foreign assistance program. We believe the managers in AID are aware of the challenges they face, and as noted AID is taking some corrective actions. We are continuing our efforts to highlight these challenges and to recommend steps for improvement.

This completes my statement, Mr. Chairman. We would be pleased to answer any questions you might have.

Mr. BROOKS. Thank you very much, Mr. Bowlin. I have some questions I will submit, and I will ask you a few of them now.

To what extent is the growth in the AID pipeline caused by the shift of project emphasis to smaller, more numerous new directions projects—that is, projects aimed at the poorest of the poor in the host countries?

Mr. BOWLIN. The inventory of AID projects has increased. In 1975 there were about 1,550 projects, and the inventory increased to over 2,000 at the beginning of fiscal year 1981. These numbers reflect, in our view, a shift in the AID inventory from capital-type projects to the smaller, technical transfer-type projects.

It is our understanding that these smaller projects require as much management attention as the larger projects, and certainly this increase in the numbers has contributed to the slowdown.

I think also that AID has, over this New Directions time frame, had a learning curve and has had to gain experience in implementing the smaller assistance projects.

Mr. BROOKS. Is the learning curve going up or going down?

Mr. BOWLIN. I think down. I think they have gained from experience, and we see some progress.

Mr. BROOKS. And the unspent project funds have grown from what?—about \$1.5 billion in 1975 to what?

Mr. BOWLIN. About \$5 billion.

Mr. O'CARROLL. About \$1.5 billion in September 1980, and it is around \$5 billion now.

Mr. BOWLIN. That number is based on our last analysis.

Mr. BROOKS. What specific steps would you propose that AID take to reduce the 7- to 10-year time period between project design and actual implementation?

Mr. BOWLIN. We believe that AID should involve the host country more in project design. We believe that some attention needs to be shifted to planning for project implementation; shifting some emphasis from the design and identification process. We believe that AID needs to improve its guidance to the project officers in the field and it can better use its prior experience.

AID has indicated it wants to concentrate more on institution building, and we think that would be a plus.

Mr. BROOKS. What improvements would you recommend to insure—that is a loose word, is it not?—to make possible that AID projects are properly implemented?

Mr. BOWLIN. We believe that the monitoring of the projects could be improved. We think—to repeat an earlier comment—project implementation planning—the planning in the early stages for the implementation—could improve the chances of success in implementing that project.

Mr. BROOKS. Would you elaborate on the weaknesses you have found within the AID project procurement system?

Mr. BOWLIN. I would point to a couple of general problems.

We have noted in recent reports that project procurement problems, such as planning for commodity needs early in implementation planning, could be improved. We believe that the host country capability to carry out procurement is a weakness that needs to be considered during the Agency's efforts to improve its procurement policy.

Mr. BROOKS. Does AID have the capacity to accurately account for the funds that are spent on the host country contracts?

Mr. BOWLIN. It is our understanding that total figures on host country contracting are to be available at the missions. We have found that oftentimes that is not the case.

We noted an instance wherein an AID auditor asked a mission about the numbers of host country contracts and the auditor was told that 37 host country contracts existed, and he in fact identified 105.

So in terms of the total amount of host country contracting we see a gap in AID's information.

Mr. BROOKS. Will you comment on their performance in determining whether the original goals of its projects were achieved in an evaluation or monitoring of results—of yield?

Mr. BOWLIN. In 1978, the Foreign Assistance Act included an amendment which called for the establishment of an Office of Evaluation. AID has established an Office of Evaluation which has conducted thus far 26 evaluation impact studies.

It seems to us that AID is giving more attention to this area. Those reports are widely disseminated.

Mr. BROOKS. Has AID effectively used this evaluation process for developing better projects in the future?

Mr. BOWLIN. We have currently a review of completed projects, in the agricultural area, that has just started. One of the elements of that review will be to look at AID's lessons learned—how they identify successes and weaknesses.

At this stage we really cannot say how successful AID's evaluation efforts have been, because we have not looked at use of the evaluation results.

Mr. BROOKS. I have a couple of other questions I will submit and you can respond for the record, but one last question: Would you elaborate on how AID's overseas employee assignment and transfer system has affected project implementation?

Mr. BOWLIN. Certainly to the extent that people are rotated overseas and you have turnover of staff in a project cycle which can run from a 7- to 10-year time frame, there is going to be some loss of continuity. Management will be faced with training and retraining of project officers. To that extent, it is going to have a negative effect on the ability to implement that project.

I do not know that we have any solutions to that dilemma to offer at this stage.

Mr. BROOKS. Has AID fulfilled its promise to the Government Operations Committee to establish overseas audit offices?

Mr. BOWLIN. I think maybe AID can respond to that on a more current basis.

Mr. BROOKS. We will ask them.

Mr. BOWLIN. We have a review in process of the Inspector General function. When that report is completed, we will be able to answer that more definitively.

At this stage we have indications that the IG may not be able to provide sufficient audit coverage. For example, the IG has had difficulty establishing an office in West Africa, although our understanding is that that has either been recently established or will be very soon.

Mr. BROOKS. Thank you very much, Mr. Bowlin and Mr. O'Carroll, for coming down. Thank you very much.

Without objection, your prepared text and our additional questions will be included in the record at this point.

[Mr. Bowlin's prepared statement and submissions to additional questions follow:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Tuesday, October 6, 1981

Statement of
Samuel W. Bowlin
Associate Director, International Division
before the
Subcommittee On Legislation and National Security
of the
House Government Operations Committee
on
AID Operations

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide the Subcommittee with comments on AID's operations relative to the foreign assistance program. In our testimony today, we are emphasizing the results of certain reviews concerning several AID management practices.

OVERVIEW OF FOREIGN ASSISTANCE

The Foreign Assistance Act stressed these major development assistance goals:

- ° assisting the governments and people in developing nations to satisfy basic human needs,
- ° improving individual standards of living and achieving economic growth with equity on a self-sustaining basis,
- ° encouraging the development processes in which individual civil and economic rights are respected and enhanced, and
- ° serving as an instrument of U.S. foreign policy by providing financial and technical resources to developing countries.

U.S. efforts to achieve these goals have met with some success, but in our view, improvements can be made in program planning and project implementation.

We see indications that the AID project implementation process has slowed down. More projects are being started than are being completed. Also, the age of obligated, but undisbursed, funds--or the pipeline--has increased from about \$1.5 billion to about \$5.0 billion over the last 6 years. In a recent review of AID's program commitment to Egypt, we found that of the more than \$357 million committed to a selected group of projects during the past 6 years, only 17.5 percent has been spent. A further analysis showed that, at the end of 1980, about 44 percent of the funds obligated in 1975 and 1976 and only 21 percent of those obligated in 1977 had been disbursed. Graphically, only about 6 percent of the monies obligated for the selected projects in that country in 1979 and none of the 1980 obligations were disbursed as of September 30, 1980. We believe such information is symptomatic of AID management problems which could cause shortfalls in actual project financing and/or delivery of previously committed development assistance. Over the past 3 years, we have reported on some factors and problems, which have contributed to slow project implementation and the increasing pipeline. With your permission, Mr. Chairman, we will place in the record brief summaries of a number of studies we undertook during the past 3 years on segments of AID operations.

Implementation begins when agreements--either loans or grants--are officially signed by U.S.- and recipient-government representatives. U.S. funds are then obligated to finance the actions needed to deliver the development assistance. Often, 3 years or more elapse and extensive Agency resources are used

while AID--with additional major assistance from U.S. contractors and some lesser assistance from the potential recipient governments--designs and plans the projects. Once the project agreements are signed and U.S. monies are obligated, the implementation responsibility primarily shifts to the host government.

I will now comment on some difficulties we have reported.

OVEREMPHASIS ON PLANNING AND DESIGNING

The significant pipeline buildup occurs partially because of AID's tendency to overemphasize those activities which deal with planning, designing, and starting new projects which lessens emphasis on delivering assistance to recipient countries. We have discussed this overemphasis on planning, designing, and obligation of funds in many reports; however, AID has been slow in shifting attention to project implementation.

For example, our 1979 report on development assistance in West Africa noted that AID's project design process is complex and time-consuming. In some cases, AID spent 2 to 4 years in project design, often with less-than-intended results--the project proposals were not necessarily either well-designed or easily implemented. In that report, we also recommended that the Agency's geographic bureau in Washington as well as the missions in West Africa place more emphasis on implementation. We said that the Agency can improve management by assuring that more attention is given to major project implementation requirements --such as planning, contracting, monitoring, and evaluating.

In a 1980 report, we noted that although AID knew of major project implementation problems, the Agency had not concentrated on appropriate solutions. AID's own studies have shown that

because of the relative emphasis on obligating funds, project implementation has tended to suffer. One report described situations where the absence of, or incomplete, procurement plans had led to poor procurement practices which seriously delayed project implementation. Too often, the contractor was ready to start, but because vehicles and equipment were not ordered in time or the lead times were unrealistic, project implementation had to wait. AID agreed with our recommendations to reemphasize the need for adequate implementation planning and to improve the training of AID staff members who plan and implement projects. We understand that AID is currently examining ways to improve in this area.

HOST-GOVERNMENT SUPPORT

We have also observed another major factor which tends to slow project implementation and, thus, increase the overall AID pipeline. Often, recipient governments lack management and technical resources to plan and provide support for AID-sponsored projects. In 1979, we determined that long project delays in the Sahel Development Program in West Africa could be traced to inadequate project support from host-country governments. On a broader scale, we also reported that the absence of effective financial management in developing countries is a major obstacle to optimum use of internal and external resources available for development in the Third World. In 1978, an AID contractor reported that many host countries lacked the capability to support externally initiated development projects. This year, we reported that many projects in one country were delayed because the host government failed to provide either:

- full-time co-directors,
- adequate staff support, or
- sufficient logistical assistance.

These historical problems continue to slow AID project implementation.

CONTRACTING WEAKNESSES

Much of AID's project implementation in developing countries is carried out under contracts and grants with universities, non-profit institutions, private voluntary organizations, experts, consultants, and commercial contractors. We have identified many contracting weaknesses which hamper project implementation and, thus, the delivery of assistance. For example, in 1978, we reported that inappropriate or questionable practices during contract negotiations and awards were sometimes occurring. We found that AID technical personnel were too involved in the procurement process. AID also uses non-competitive contracting exceptions extensively. One-third of the contracts we reviewed were awarded non-competitively under the predominant capability exception, largely based on justifications prepared by technical offices. These exceptions were seldom challenged by officials at Agency review levels.

In March 1981, we reported that contract delays in Egypt occurred because of

- °complicated AID procurement procedures in selecting contractors,
- °the need for host-country project implementing agencies to learn AID procurement procedures, and
- °the difficulty in recruiting U.S. contractors to conduct business there.

Also, AID has not accumulated certain information that would be useful in managing procurement activities. In 1979, our report on AID contracting for studies, research, and evaluations pointed out that AID needed better information on the amount it spends on such activities. Also, in 1980, we stated that AID's reporting system does not identify the total amount and the types of commodities purchased for financed projects. As a result, AID did not know how much it spent for project commodities. Further, AID was unable to obtain the benefits associated with standard items and the consolidation and advance-purchase of selected common-use commodities. Progress has been slow in this area because AID has said that procurement is managed separately for each project and believes that information on these activities is not needed. Specific efforts have been directed to correct some of these problems, but we believe further attention is warranted.

MONITORING

As we pointed out earlier, it is AID's policy that recipient countries undertake the implementation of development assistance projects to the maximum extent possible. Greater reliance on host-government implementation of AID-financed projects does not, however, reduce the Agency's responsibility to assure the efficient use of AID resources. Therefore, AID project managers retain the responsibility to monitor the implementation of these projects to assure that needed goods and services are delivered efficiently and on time. Various audits of AID activities conducted in recent years, however, have disclosed weaknesses in monitoring projects and in keeping abreast of the multitude of contractors and host-government agencies. I will cite a few examples.

In our March 1979 report on U.S. development assistance programs in the Sahel, we noted inadequate monitoring of projects. We recommended that AID require its bureaus and missions to improve project monitoring. We also noted (in another 1979 report) that inadequate monitoring of study contracts had led to unnecessary expenditures and the purchase of commodities which could not be used.

In July 1980, we reported again that monitoring of project implementation continued to be a problem. The problems included lack of host-country contract audits, inadequate AID post-audits of commodity transactions, and limited AID reviews of contractor vouchers prior to payment.

Our June 1981 report noted that, in some cases, disaster assistance projects were not adequately monitored with the result that recovery in certain countries suffering from disasters was hampered. Another report (in April 1981) described examples of inadequate monitoring of AID's health-care projects; and another report, in March 1981, cited shortcomings in monitoring agricultural projects in Egypt.

A cause for poor monitoring has been the long delays in providing guidance to responsible project officers. Although monitoring guidelines have been under consideration since 1975, the Agency has not yet issued complete guidelines. AID has agreed that improved monitoring of projects is needed and that improvements could not be achieved without clear and definitive guidelines. As a result, in June 1980, AID issued guidelines for project officers to manage direct AID contracts and grants. Guidelines for monitoring the significant numbers of host-country contracts are being prepared but have not been issued as of today.

We believe improved monitoring of project implementation should be a high AID priority.

STAFFING

AID attributes some of its management concerns to staffing problems both in Washington and overseas. In 1978, we reported on needed changes in AID personnel practices and recommended that the Agency evaluate its position classification and foreign service systems, and bring some discipline to its personnel rotation system. We understand that AID expects to implement a new position classification system soon; however, the Agency continues to have a unique U.S. direct-hire personnel system which includes Senior Executive Service (SES), Presidential Appointee, Chief of Mission, Foreign Service and Foreign Service Reserve, General Schedule, Administratively Determined, and Wage System personnel.

Responding to a 1980 Auditor General report on foreign service assignments and rotation, the Agency agreed to implement many of the recommendations. The Agency, however, resisted correcting the problems of long assignments in Washington for foreign service personnel, and lengthy periods of time that personnel spend on the reassignment complement.

The Agency is reviewing many personnel matters, including (1) the size of mission staffs, (2) the objective criteria for staffing decisions, (3) in-house staff training, (4) the need for technical skills, and (5) the assignment of foreign service personnel to Washington. As part of these efforts to improve personnel operations and efficiency, we believe the Agency should also focus on interagency service agreements, personnel services contracts, and contracts with private firms.

LESSONS LEARNED

In recent years, we have emphasized the need for the Agency to better use the lessons learned during the past 3 decades of designing, programing, and implementing projects in developing countries. We have suggested that AID should increase recipient government involvement in identifying, designing, implementing and evaluating U.S.-supported projects. In this context, we have suggested that AID place greater emphasis on the ability of host countries to carry projects through the implementation phase and to sustain the recurring costs of generated activities when external financing ends.

AID has established an office of evaluation which, for 2 years, has consistently reported design and implementation problems and has identified lessons AID should have learned in managing particular projects. We believe AID's evaluation office can contribute significantly to assessing the impact that U.S. assistance has on the lives of poor people in developing countries and to improving the Agency's way of delivering assistance.

* * * * *

To conclude, we believe a causal link can be drawn between AID's pipeline and the less-than-effective use of development assistance funds. The availability of people is often used for obligating funds and starting projects and not for ensuring the appropriate use of these funds. In this process, however, not enough time remains to (1) establish adequate baseline information to measure development progress and to identify and correct problems; (2) ensure that project implementation, as planned, is

adequately carried out; and (3) perform evaluations to verify development progress and to increase chances of success. Thus, these problems--which are historically not unique throughout the developing countries--continually recur. Consequently, development projects too often result in less-than-effective use of foreign assistance funds.

We believe that some encouraging progress is being made to improve the substance and administration of the foreign assistance program. We believe the managers in AID are aware of the challenges they face. We are continuing our efforts to highlight these challenges.

This completes our statement, Mr. Chairman. We will be pleased to answer any questions.

SUMMARIES
OF
SELECTED GAO REPORTS

1. MANAGEMENT PROBLEMS WITH AID'S HEALTH-CARE PROJECTS IMPEDE SUCCESS (ID-81-24)

04/28/81

Background

The Agency for International Development (AID) is the principle U.S. Government agency that provides health assistance. Indirectly, the Department of State and many other U.S. Government agencies also support international health programs by channeling funds to international organizations and programs such as the United Nations Development Program. Recognizing that previous health assistance programs have not achieved their desired results because they concentrated on sophisticated urban-based curative measures, the Government shifted U.S. interests to an emphasis on preventive health care in the rural areas of developing countries. GAO undertook a review of selected AID projects to determine the extent greater access to health care services has been achieved and the implementation problems which must be overcome to realize the long-term goal of improved health. Additionally, it examined the prospects of the efforts continuing after AID involvement terminates to ensure effective use of limited resources.

Findings

In its review, GAO found that many of the AID projects were successful in increasing access to health services, and most were successful in achieving their intermediate objectives such as training health workers, building facilities, administering immunizations, and providing initial stocks of medicine. However, problems were encountered during project implementation that involve logistic support management oversight and improve evaluation. These problems raise questions about the prospects of achieving the long-term health goals of the projects. Consequently, AID needs to become more involved in managing project implementation and lending more assistance to recipient countries in resolving the obstacles they frequently encounter.

Recommendations to the agency

The Administrator of AID should instruct mission directors and health officers to take a more active role in monitoring and managing health projects.

The Administrator of AID should insist that periodic management reviews be completed regardless of the stage of project implementation.

The Administrator of AID should insure compliance with procedures which require periodic progress reports on the implementation of health projects, identifying actual or anticipated difficulties and the proposed remedies.

The Administrator of AID should require a more critical, realistic, and continuing analysis of the ability and willingness of host countries to continue providing financial and technical support when external assistance ends.

2. POOR PLANNING AND MANAGEMENT HAMPER EFFECTIVENESS OF AID'S PROGRAM TO INCREASE FERTILIZER USE IN BANGLADESH (ID-81-26)

03/31/81

Background

The Agency for International Development (AID) has undertaken a project to improve the supply and distribution of fertilizer in Bangladesh. The aim of the project is to help Bangladesh meet its goal of achieving foodgrain self-sufficiency by 1985. GAO reviewed project planning and implementation.

Findings

Some progress has been made to improve fertilizer distribution and use, but the project has not achieved its goal of an annual 15-percent increase in fertilizer sales. Fertilizer imports have not been adequately planned and coordinated with domestic fertilizer production and storage capacity. The project's new marketing system has made limited progress in improving farmer access and reducing distribution costs. Construction of storage facilities is significantly behind schedule, and those warehouses which have been built are fewer and smaller than planned. Plans to provide bulk-handling facilities have not been adequately planned. Plans by AID to purchase portable bagging machines for bulk fertilizer imports may duplicate similar efforts planned by another agency. Current fertilizer imports are not sufficient to justify the machines.

Recommendations to the agency

The Administrator of AID should act to establish procedures and requirements calling for collaborative project efforts among the contractor, the host government, and the AID mission and providing a mechanism to speed the approval process, resolving differences as they occur.

The Administrator of AID should act to coordinate and integrate current AID plans for providing temporary bagging machines with similar efforts of the International Fund for Agricultural

Development, including securing appropriate commitments from the host government and other donors for effective equipment use.

The Administrator of AID should encourage and assist the Government of Bangladesh to (1) systematically collect information on dealer functions and coverage under the new marketing system and use this data to help make necessary changes to ensure that farmers have equal access to available fertilizer when needed; (2) determine how the dealer discount policy should be revised or modified to more accurately reflect actual project and overhead costs to dealers and to allow a reasonable profit; and (3) gradually remove officially administered retail sales prices, as long as doing so would not reduce the equal access of fertilizers to all farmers.

The Administrator of AID should assist and encourage the Government of Bangladesh to: (1) employ a more systematic approach for planning imports, one that gives proper weight to factors of fertilizer supply and demand in a way that is responsive to changing conditions; (2) pursue a diammonium phosphate (DAP) marketing strategy to include more widespread and consistent informational promotion, on-farm experiments to demonstrate the advantages of using DAP, and consideration of price incentives to purchase and use DAP; and (3) develop reliable, nationwide data on the most effective types, proportions, and combinations of fertilizer to use on the main crops grown in Bangladesh.

3. U.S. ASSISTANCE TO EGYPTIAN AGRICULTURE:
SLOW PROGRESS AFTER 5 YEARS (ID-81-19)

03/16/81

Background

Agriculture has traditionally been a mainstay of the Egyptian economy. In 1975, the Agency for International Development (AID) undertook a high-level development effort aimed at helping the government of Egypt increase agricultural production. The high level of U.S. assistance to Egypt is based on the belief that President Sadat's peace initiatives are crucial and that his effort will be supported and enhanced by a strong and growing economy that is able to meet the Egyptian people's basic needs and expectations for a better life. To assess the progress of the Egyptian agricultural assistance program and identify how program impact could be improved, GAO undertook a review of the assistance that the United States has provided to Egyptian agriculture since 1975.

Findings

Although AID has committed more than \$357 million to projects aimed at increasing food and agricultural production in Egypt,

only \$61.8 million of these funds has been spent, and the impact of the projects on Egyptian agriculture has been negligible. Problems in project implementation which have caused slow progress include: contracting delays; insufficient Egyptian support; inadequate AID monitoring; and the lack of staff and expertise of some U.S. contractors, including universities. Even with speedy project implementation, the program's impact will be limited unless policy changes, which provide an environment for agricultural development, are undertaken and unless more attention is given to developing an extension service capable of delivering the technology now being developed.

Recommendations to the agency

The Administrator of AID should require that a formal understanding be reached and incorporated into future Commodity Import Program agreements, thereby outlining Egyptian Government plans to address agricultural and other economic policy concerns and assess the effects of U.S.-financed imports on local producers and on Egyptian development.

The Administrator of AID should (1) clearly define AID project officers' monitoring responsibilities, including relations with U.S. contractors and Egyptian officials and periodic visits to project sites; (2) clearly assign responsibility for coordinating with other donors on specific projects; (3) assist Egyptian ministries in understanding and applying established U.S. procedures and regulations which affect project implementation.

The Administrator of AID should work with the Egyptian government to establish the necessary authorities and procedures to insure the timely processing of AID-financed commodities through Egyptian customs.

The Administrator should take action to cause programmers of future development projects, particularly agricultural projects in Egypt, to fully use and consider AID's extensive experience and all available information in designing those projects. This effort should be directed to developing ways to minimize the costs of potential implementation problems.

The Administrator of AID should initiate actions to reassess the optimal degree of U.S. university involvement in U.S. agricultural development programs in Egypt. In making this assessment, consideration should be given to the problems affecting current university performance and the universities willingness and ability to alleviate those problems in assisting in future projects. GAO further recommends that AID, in establishing future levels of project assistance to the agriculture sector, thoroughly consider whether the Egyptian ministries responsible for project implementation have the ability to effectively absorb the additional assistance programmed.

The Administrator of AID should require that the developmental strategy for future U.S. agricultural assistance to Egypt be revamped to include a concentrated, organized effort to develop a method for effectively transferring technology to the Egyptian farmer.

4. INTERNAL CONTROL AT AID MISSIONS (FGMSD-81-5)

10/10/80

Background

Survey results are presented of accounting controls over revenue and expenditure transactions at seven Agency for International Development (AID) missions in Latin America and the Caribbean. Where potential weaknesses were indicated, selected transactions were tested to determine if the weaknesses existed; no attempt was made to establish their extent or the precise corrective actions needed.

Findings

The survey disclosed weaknesses in internal controls over accounts receivable, cash collections, and imprest funds. It was noted that a need exists for increased internal reviews. Since survey results were discussed with responsible accounting station officials who initiated or promised corrective action, formal recommendations were not made. However, it is suggested that the Director, AID, follow up on the adequacy of the corrections, and that he consider the deficiencies noted during any future accounting system design efforts.

5. AID SLOW IN DEALING WITH PROJECT PLANNING AND IMPLEMENTATION PROBLEMS (ID-80-33)

07/15/80

Background

The Agency for International Development (AID) finances hundreds of millions of dollars annually in the procurement of commodities for foreign aid projects for developing countries.

Findings

Problems in planning procurements and monitoring project implementation still exist. Despite recommendations by GAO and others, including AID management teams, to improve project monitoring effectiveness: (1) project milestones are still not being met effectively, and (2) identified management problems are not being attended to properly. Delays in ordering and receiving

project commodities occur because AID management has not adequately planned procurements, project officers are not adequately trained in procurement and supply management matters, and AID has not issued clear instructions on project implementation. Unnecessary procurement costs are incurred because AID does not have information on the total amount and the types of commodities purchased for financed projects. As a result, AID is not able to obtain the benefits associated with the standardization of items used on projects and the consolidation and advance purchase of selected common-use commodities. For some types of commodities, GAO identified uneconomical expenditures in excess of \$600,000 that could have been avoided through closer management of commodity procurement. AID officials recognize the problems; however, action to improve planning and project monitoring has been slow.

Recommendations to the agency

The Administrator of AID should assure that the geographic bureaus increase efforts for finding solutions to problems that continue to inhibit the process of delivering economic assistance to developing countries, and assure that studies undertaken for that purpose produce usable products. He should direct those responsible for agencywide coordination to follow up on such efforts, including speedy issuance of adequate monitoring guidance. He should reemphasize the need for adequate project planning, including development of time-phased procurement plans and schedules, at the earliest possible stage in the project design process in clear and explicit guidance to AID personnel responsible for project design and approval. The Administrator should: establish a procedure to assure that AID project officers going overseas receive mandatory training in procurement, contracting, and supply-management matters; establish an accounting and reporting system that includes systematic collection and analysis of information on project commodities for commodity-management purposes; authorize pilot experiments for seeking more prudent and economical procurements of AID-financed commodities through wider application of recognized procurement principles; and enforce appropriate price checks of project commodity purchases.

6. COOPERATION IN AGRICULTURAL ASSISTANCE: AN ELUSIVE GOAL IN INDONESIA (ID-80-29)

06/11/80

Background

The United States channels its foreign aid to developing countries through a variety of assistance organizations. To some extent, a concerted integrated development effort focused on the priority needs of developing Third World countries has not been achieved. GAO performed a case study assessing the nature and extent of foreign donor and recipient cooperation in the agricultural development of Indonesia. Much of the U.S. assistance to

Indonesia for the past 10 years has been aimed at developing the country's long-term food production potential and reducing its dependence on imported rice. Setting specific priorities has been difficult because the country's problems are complex, facts are often uncertain, and appropriate strategies are not always apparent.

Findings

GAO found that none of the necessary coordination arrangements has operated effectively. Foreign donors recognize the Indonesian Government's responsibility for formulating its own development plans. However, the Government planning agency has not fulfilled its responsibilities for assistance coordination on a sector basis. Opportunities for donor/host-government discussion and analysis of agricultural aid programs have been limited. U.S. officials have advocated a stronger leadership role for the World Bank, but the Bank has not assumed this role because of opposition from some bilateral donors. Weak coordination has resulted in the lack of a focused and concerted donor effort; independent donor efforts seldom interrelate or reinforce each other.

Recommendations to the agency

The Secretary of the Treasury, working with the Director of the International Development Cooperation Agency, should direct the U.S. Executive Director to the World Bank to pursue with Bank officials the need for the Bank, in concert with other donors, to: (1) seek a more active role in coordinating donor assistance programs and in encouraging the Government of Indonesia to promote effective coordination including periodic sector-level, problem-oriented discussions among donors; (2) promote Indonesian efforts to achieve closer interagency and provincial cooperation oriented toward more precisely defined development priorities and toward focusing assistance on these priority needs; and (3) assess ways to improve Indonesia's absorptive capacity, and base increases in future Bank program levels on substantive steps to reduce absorptive problems. Also, the Secretary of the Treasury should direct the U.S. Directors to both the World Bank and the Asian Development Bank to promote early information sharing on proposed bank activities so that U.S. officials will have the necessary time to evaluate the relationships between Bank programs and U.S. bilateral programs. The Secretary of State and the Director of the International Development Cooperation Agency should re-emphasize to other bilateral donors the need for both increased information sharing and their participation in effective coordination. Finally, the Director of the International Development Cooperation Agency should see that multilateral development bank loans undergo cross-program review within the Development Coordination Committee to promote mutual reinforcement among the various assistance efforts within specific countries.

7. U.S. EFFORTS TO EDUCATE AND TRAIN
THE POOR IN DEVELOPING COUNTRIES (ID-80-18)

05/05/80

Background

Since 1960, the United States, through the Agency for International Development (AID) has programmed over \$3 billion to improve education and human resources in developing countries. Over the past decade Congress has been concerned about the extent to which U.S. assistance reaches the poor in developing countries. Despite a strategy developed in 1973 requiring that U.S. assistance meet the basic human needs of the poor, including education, AID has not yet completed an agencywide policy for education and human resources program guidance.

Findings

AID faces many obstacles in attempting to improve the education of the poor in developing countries. Recipient governments, and often the poor people themselves, do not commit resources needed to implement the U.S. sponsored projects. Problems have been encountered in supplying and maintaining learning materials to users in remote areas and in capital cities. AID had not effectively recorded and used its 20 years of experience in designing, programming, and implementing education and human resource projects. Many development problems encountered currently are similar to previous experiences, but the AID management system did not adequately reflect these experiences in an easily accessible, usable form. Although about 190,000 people have traveled to the United States and other countries since the late 1940's for training, a shortage of qualified local people continues to hinder development projects in many countries. This shortage stems from the impact of the "brain drain," or the exit of skills from developing countries. AID could not fully support its position that less than 1 percent of the sponsored training participants do not return home. It has been estimated that as many as half of all participants were not included in statistics representing those reported returning home after completing training abroad. Furthermore, AID does not adequately follow up on participants to evaluate their contributions to development and the impact of U.S. spending upon the poor.

Recommendations to the agency

The Administrator of AID should: increase recipient-government involvement in identifying, designing, implementing, and evaluating U.S. supported projects; place greater emphasis on the host country's ability to carry projects through the implementation phase and to sustain recurring costs; encourage joint planning and execution of education related programs among all donors; assure that program planners obtain substantive

information on experiences gained in prior and ongoing education projects that directly relate to current programs; prepare additional guidance for program planners to obtain needed information in such areas as the effects on the poor; and establish procedures for exchanging plans, programs, and project designs among the various functional sectors to assure coordination and development of the best program and country strategies. GAO further recommended that an agencywide system of accountability of arrivals in, and departures from, the United States, as well as the application of training received, be developed for overall management and evaluation of the participant training program.

8. TRAINING AND RELATED EFFORTS NEEDED TO IMPROVE FINANCIAL MANAGEMENT IN THE THIRD WORLD (ID-79-46)

09/20/79

Background

To identify the causes of inadequacies in the developing countries' ability to establish sound financial management in the public sector, GAO visited five countries in Latin America, including some of the more developed and some of the lesser developed countries. Using the results of this study GAO held a symposium on the need to improve financial management and the whole spectrum of public administration in developing country governments.

Findings

The major weakness in government accounting in the countries GAO visited is a lack of integrated financial information, produced in a timely manner that can be used as a management tool in decisionmaking. Comptroller General offices in these countries have traditionally emphasized precontrol or postcontrol voucher audits. These audits, primarily concerned with the legality of transactions, place little or no emphasis on financial controls, management systems, program evaluations, or the economy and efficiency of operations. The relatively small number of trained and experienced people in developing countries are often reluctant to work for the government, because of the low pay and ineffective civil service systems which neither protect career employees from political actions nor provide for merit promotions. Training offered by institutions in developing countries in financial management and control is often inadequate and of poor quality. Two of the biggest problems in this area are an insufficient supply of qualified, full time faculty members and a shortage of current textbooks and teaching materials translated into the local language. Assistance is needed to strengthen developing countries in improving financial management in government; however, agreement on the measures to insure these improvements is also required.

Recommendations to the Congress

Congress should amend the foreign assistance act to read as follows: "It is the sense of the Congress that improvement of governmental financial management should be given a higher priority within the development process. More of the development assistance resources being made available to Third World countries should be directed toward improving financial management capabilities through more effective training and technical assistance in this field."

Recommendations to the agency

The Director, International Development Cooperation Agency along with the Administrator, Agency for International Development, should act to improve the financial management in developing countries by cooperating more fully with other major donors, such as the U.N. organizations and multilateral development banks, in an effort to strengthen regional and national institutions that provide financial-management training to Third World countries; determining, at the time of authorizing assistance projects and programs, to what extent the developing-country implementing agency requires training and technical assistance in general management, in order to carry out the U.S. assisted effort; strengthening the U.S. capability to plan, program, and assist in implementing financial-management programs and projects; instructing U.S. representatives and delegates to international organizations and other forums to emphasize the benefits to be gained by improving financial management in developing countries and encourage that the necessary resources be directed toward this objective; and convening an international symposium or workshop of major donors and recipients, at the earliest opportunity, to launch a coordinated effort for instituting a financial-management improvement program to remove this major obstacle to development.

9. U.S. DEVELOPMENT ASSISTANCE TO THE SAHEL--
PROGRESS AND PROBLEMS (ID-79-9)

03/29/79

Background

The Agency for International Development (AID) is participating in a long-term effort to help the peoples of eight Central and West African countries (called the Sahel) project themselves from the vagaries of nature by providing assistance in the achievement of some measure of economic and social development. Since 1974, AID has provided \$374 million, of which \$135 million was used for food assistance.

Findings

AID lacks a current regional development strategy identifying what it wants to accomplish in the Sahel and outlining clearly how to achieve its objectives. A better working arrangement between the Sahel development planning team, responsible for overall regional issues, and those field missions responsible for country activities is necessary. The AID delivery rate is slow and improvements in project management are needed. The AID design system also requires substantial improvement. AID needs to make a greater effort to link food assistance to the long-term development of the Sahel to achieve dual humanitarian and development objectives.

Recommendations to the agency

The Administrator of AID should: emphasize the implementation phase of development assistance; establish procedures to shorten the design and approval process and provide for more timely initiation of development projects; give special consideration to the methods for managing regional development projects and defining the relationships between regional management systems and bilateral country missions; and use food assistance allocated to the Sahel countries more effectively.

10. EFFORTS TO IMPROVE MANAGEMENT OF U.S. FOREIGN
AID--CHANGES MADE AND CHANGES NEEDED (ID-79-14)

03/29/79

Background

The Agency for International Development (AID) has improved the management of its worldwide programs, but its efforts should be intensified to assure that the U.S. economic development assistance objectives are effectively achieved.

Findings

AID has improved its process for drawing up and evaluating its annual operating expense budget prior to submission to the Congress. However, the question of proper grade levels for Bureau controllers and the size and makeup of their staffs needs to be resolved. Although AID has taken several steps to improve property management, frequent staff turnovers and vacancies hamper the ability of the missions to comply with the new regulations. The most serious problem is lack of control by management over nonexpendable property. AID is improving internal controls over outstanding travel advances. AID is placing greater emphasis on awarding grants and contracts on a competitive basis and giving more consideration to firms owned by minorities and women. The AID policy to review annually the economic status of countries

with significant outstanding loans balances with potential renegotiation for accelerated loan repayment in mind has not been carried out aggressively. Neither has AID developed adequate criteria for identifying countries economically capable of accelerating repayment of outstanding concessional loans.

Recommendations to the agency

The AID Administrator should: (1) define the role and authority of geographic Bureau Controllers, justify their grade levels, and ascertain their staffing requirements; (2) institute a policy which would apply Washington oversight controls over missions unable to control administration of their missions because of staff turnover, personnel absences, or staff shortages; (3) develop policies and procedures to minimize the negative effect of staff turnover, staff absences, and failure to have knowledgeable personnel at missions at all times; (4) require that established travel regulations are implemented uniformly worldwide; (5) intensify training for project officers in the overseas missions to assure that contract and grant procedures can be properly applied; (6) require close monitoring of the accelerated loan repayment policy; (7) encourage a dialogue relative to seeking early repayment of concessional loans made to European countries by predecessor agencies; (8) require that close monitoring be maintained over efforts made at overseas posts to support full adherence with the Bellmon Amendment provisions; and (9) develop guidelines to help missions determine what constitutes adequate storage facilities for comparison with less-developed countries' actual inventory of storage facilities.

11. AGENCY FOR INTERNATIONAL DEVELOPMENT NEEDS TO STRENGTHEN ITS MANAGEMENT OF STUDY, RESEARCH, AND EVALUATION ACTIVITIES (ID-79-13)

02/12/79

Background

GAO examined the management of contracts and grants issued by the Agency for International Development (AID) for study, research, and evaluation activities. During fiscal year 1977 and 1978, AID obligated \$109 million and \$90 million for services from contractors. The amount projected for fiscal 1979 was \$105 million.

Findings

Some categories of AID-funded studies and research were not included in fiscal year 1979, such as host-country technical services (about \$600 million), support of the international agriculture research centers (about \$19 million), and research components of development projects. AID cannot readily determine the full amount it spends for studies, research, and evaluations

because its management reporting systems are not designed to provide this information. AID does not: give adequate consideration to the information already available to the U.S. Government before contracting for more studies and research; assure itself that it has received products contracted for; nor systematically disseminate its information to others within AID and the Government. These conditions may lead to buying information already available to the Federal Government and to a reduction in the impact on AID programs.

Recommendations to the agency

The AID Administrator should: require that AID's management information system identify research and study efforts and their costs; require responsible officers to certify that available information has been obtained, analyzed, and considered before contracts or grants for studies and research are authorized; expand coordination and information exchange within AID and with other Federal agencies and donors; act to assure that AID managers exercise appropriate surveillance over contractor activities, and complete and use properly contractor performance evaluation reports; and require that appropriate information on AID-funded studies and research be sent to the National Technical Information Service and the Smithsonian Science Information Exchange.

12. NEED TO IMPROVE AID'S PROJECT MANAGEMENT AND CONTRACTING PRACTICES AND PROCEDURES (ID-78-22)

03/14/78

Background

Selected contracts and grants awarded by the Agency for International Development (AID) were examined to evaluate the planning of procurement requirements, compliance with procurement regulations, and monitoring and control of contracts.

Findings

The development of requirements for proposed procurements was not given sufficient attention because of AID's haste in making awards. This sometimes resulted in delays in implementing contracts and contract modifications. AID sometimes used inappropriate or questionable contracting practices in the negotiation and award phase of the procurement process. Procurement policy calls for maximum competition but allows for noncompetitive negotiations under specified circumstances. AID used these exceptions rather extensively, and justifications for these exceptions prepared by the technical offices were seldom challenged by review levels of the agency. Several contracting officers stated that the technical offices and bureaus became too involved in the procurement process, and this limited competition. The technical

offices and contract office should work as a team in the procurement process. Weaknesses in contract and grant monitoring led to: failure by a contractor to fulfill the contract objective, a change in contract scope, work on contracts after expiration dates, and contract-incurred cost in excess of the authorized amount.

Recommendations to the Congress

The Administrator of AID should: closely monitor the implementation of the October 1977 directive to ensure that corrective actions are taken; establish criteria defining the conditions when the impairment of foreign assistance objectives exception can be used; and eliminate weaknesses identified in the report, particularly those relating to AID's monitoring of contracts and grants. (HTW)

13. IMPROVED MANAGEMENT NEEDED OVER THE AGENCY FOR INTERNATIONAL DEVELOPMENT'S OPERATING COSTS (ID-78-15)

02/14/78

Background

The Agency for International Development's (AID) operating expenses for administrative and overhead costs have been of increasing concern to the Congress in recent years. AID fiscal year 1978 operating expense budget totaled \$233.8 million.

Findings

AID operating expense budgets are formulated without adequate reviews of overseas missions' budget requests. Washington offices responsible for reviewing overseas operating expenses lack sufficient personnel and information to make effective evaluations. Operating expense funds are sometimes used for questionable or, in some cases, unauthorized purposes, often because of the failure of AID officials to follow applicable policies. Deficiencies found in property management in Washington were: incomplete property records, failure to conduct physical inventories since June 30, 1974, and inadequate guidance to personnel. Deficiencies found overseas were: incomplete records, failure to establish authorized type and quantity of property items, and failure to conduct utilization reviews to ascertain equipment needs. These weaknesses could waste public funds through unnecessary procurement and misuse or loss of Government property.

Recommendations to the Congress

The AID Administrator should make certain that: headquarters thoroughly and critically reviews and analyzes operating expense

budgets of AID missions overseas before they are submitted to the Congress, the regulations and procedures governing the expenditure of operating expense funds are fully complied with, and an effective management and control system is established and maintained over AID's property and equipment.

14. U.S. STRATEGY NEEDED FOR WATER SUPPLY ASSISTANCE TO DEVELOPING COUNTRIES (ID-81-51)

08/25/81

Background

A review was conducted of water resources development activities and problems in developing countries, especially those problems associated with providing community water supplies. The United States has not developed water policies and strategies despite the fact that much of the billions of dollars in financial support for developing country water projects emanates either directly or indirectly from the United States.

Findings

Numerous problems and constraints limit the progress that developing countries can make toward the United Nations' (UN) goal to provide clean water and adequate sanitation for all by the year 1990. These major constraints involve funding; institutional and manpower needs; concentration of assistance in urban areas, even though the rural poor are in greatest need; and problems in maintaining facilities. Funding assistance needed will have to more than double and developing countries would have to double their own funding just to meet the minimum needed to meet the UN goal. Even if sufficient funds are provided, developing countries would not be able to use the funds efficiently and in time to meet the goal because of a lack of trained personnel. Most of the projects to date have been in urban areas. However, about 70 percent of the population in developing countries live in rural areas. Since developing countries decide themselves where the projects are to be located, the donors need to exert influence to ensure that the rural areas receive at least a portion of the assistance given. Further, information is not systematically generated to apprise host governments and aid donors water supply maintenance problems and projects which need rehabilitation. Such information could be helpful in deciding how to make the best use of available funds for increased access to water supplies by poor people of developing countries.

15. COORDINATING U.S. DEVELOPMENT ASSISTANCE:
PROBLEMS FACING THE INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY (ID-80-13)

02/01/80

Background

Substantial changes have occurred in the activities and programs affecting development in Third World countries in the last decade. These changes and the increasing roles of non-aid agencies in development activities have caused authority for development programs to be widely dispersed among Federal Government agencies and committees. The International Development Cooperation Agency (IDCA) was created to improve coordination of these activities.

Findings

The three major changes which particularly affect the coordination problem are (1) a shift from U.S. bilateral aid toward more emphasis on multilateral assistance; (2) a shift from program assistance and integrated country planning toward more emphasis on project assistance; and (3) the increasing importance of non-aid activities such as trade and foreign investment. The creation of IDCA represents progress toward establishing an independent coordinator, but it is uncertain whether the agency can establish a separate, independent identity. The agency's director has the lead responsibility for the U.S. development policy in specified international organizations, and for development policy toward multilateral banks. However, its creation does not significantly affect the Government's ability to coordinate policies and programs on a country rather than a project basis nor does it affect much the development coordinator's ability to influence non-aid issues. While the new organizational arrangements could effect some improvement in the authority of the development coordinator, his power will remain limited. Therefore, the quality of the performance of the Agency Director and his staff will be critical to the success of the organization.

Recommendations to the agency

The IDCA should: place primary reliance on activist, informed staff to perform the coordination task, rather than relying mainly on a committee structure; seek the allocation of additional staff resources, increase its capability to do macro-economic analyses, and nominate the alternate U.S. Executive Directors of the multilateral banks; establish contingency funds to improve its responsiveness to unforeseen requirements and opportunities; use annual development strategy statements to develop explicit U.S. views on the division of labor among those agencies managing bilateral and multilateral development programs; strengthen its claims to authority as the development coordinator by building a record of excellence in a few priority areas. The Director, IDCA, in cooperation with the Department of State, should serve as conference coordinator for major conferences dealing with North-South issues and should play a major role in the delegations to such conferences. It is further recommended as a minimal change with respect to Title III of P.L. 83-480, the Agency and/or the Agency for International Development should have final responsibility--not subject to veto by other agencies: (1) to review and approve Title III program proposals; and (2) to monitor program implementation.

Questions and GAO Responses Submitted For the Record

1. What problems have you found with AID's observance of competitive contracting practices and what suggestions for improvement would you offer in this regard?

In 1978 we reported that inappropriate or questionable practices were sometimes occurring during contract negotiations. We found AID technical personnel were, at times, too involved in the procurement process. We recommended that AID establish criteria defining conditions when the exceptions to normal procurement procedures can be used.

2. How could AID improve their project commodity purchasing operation?

AID could attempt to compile better information on the amounts and types of commodities purchased for projects. If AID had information on how much it spends on project commodities, it would be in a position to take action to consolidate purchases or advance-purchase selected common-use commodities.

3. How specifically would you suggest that AID improve and accelerate project implementation?

We believe AID should emphasize host country involvement in design and shift attention to implementation of projects. As indicated in our statement, AID needs to improve guidance to project officers and streamline the design and approval requirements.

Mr. BROOKS. Our next witness will be the Honorable M. Peter McPherson, Administrator for AID.

Mr. McPherson, if you will excuse me I will go make that vote and come right back. Then we will proceed with your testimony and that of your associate.

Mr. McPHERSON. Of course, Mr. Chairman.

Mr. BROOKS. We will explain then that we do not blame you for everything that happened before you got here, but there is no excuse for continuing the mess the administration talked about all during the campaign.

Mr. McPHERSON. We will get it straight, Mr. Chairman.

Mr. BROOKS. We will be right back.

[Recess taken.]

Mr. BROOKS. "CBS News" just reported, very sadly and without the best of confirmation, that Mr. Sadat is dead. We do not have any further confirmation on that; CBS just put it on television. They could be wrong.

Well, the AID program in Egypt will probably have additional problems.

Back on the track, however, to continue with the hearing. Mr. McPherson you were acting counsel to the President and general counsel to the Reagan-Bush transition.

Mr. McPHERSON. Yes, sir.

Mr. BROOKS. You are a lawyer, and specialized in international and corporate tax matters. You served as special assistant to our friend Jerry Ford when he was President.

Accompanying Mr. McPherson is Tom Rollis, Assistant to the Administrator for Management.

Did you work in the transition team?

Mr. ROLLIS. Yes, sir.

Mr. BROOKS. You have that look. I knew it. It did not even say so here.

We welcome you here today and look forward to your testimony. I will accept your entire statement for the record, Mr. McPherson. You may proceed.

STATEMENT OF M. PETER McPHERSON, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY TOM ROLLIS, ASSISTANT TO THE ADMINISTRATOR FOR MANAGEMENT

Mr. McPHERSON. Thank you, Mr. Chairman.

The news about President Sadat is just terribly sobering. It brings to mind my visit with him about a month ago when he spent about an hour with me, the Ambassador, and our Mission Director in Egypt, reviewing our AID program and a number of things in depth. He is, and I hope is still, and certainly was if that must be, quite a man.

That meeting, I suppose, is part of what we are trying to do. AID management is not so much a matter of new systems as it is a matter, in my judgment, of new resolve.

We do not have all the tools; we are trying to get those in place. But more than anything else, it is an insistence upon really good management. Let me go into that a little bit.

What I would like to do, Mr. Chairman, is this: I have a formal statement which, rather than burdening you with, let me just submit for the record and comment on it at some length.

Mr. BROOKS. Without objection, the gentleman may proceed on that basis.

Mr. McPHERSON. What we have done is look through our portfolio to see what projects simply are not working. We did that fairly quickly initially, indeed identifying some \$28 million worth of projects that we felt were not working; and we returned that money to the U.S. Treasury.

That had a very dramatic impact on my organization. It told the people in the field and it told the countries we work with, that if something does not work we are prepared to terminate it.

Since that time we have proceeded to turn back other projects, and we are going to on a quarterly basis go through our inventory of projects and terminate or restructure, as the case may demand, what is not working.

I am putting a premium on being tough, putting a premium on cutting things back if they do not work, and I think that whole spirit has really gotten through our organization.

Mr. BROOKS. Mr. McPherson, you know you have got about \$5 billion in the pipeline.

Mr. McPHERSON. Yes, sir.

Mr. BROOKS. So when you turn back \$28 million, that is not what you would call a tremendous assault on the system.

Unless you can prove that the projects are not necessary, that there are no results to be gained, that the U.S. image is not to be improved, there is absolutely no use in us wasting money, time, and people throwing it down a drain somewhere else in the world where they are going to continue to hate us or where the program is not going to be effective—not just, you know, “we hope that sooner or later they will like us.” We have got to have a few more results than that.

Mr. McPHERSON. Absolutely.

Mr. BROOKS. You saved \$28 million. We are delighted that you did. Now you have got \$4.972 million to work on.

Mr. McPHERSON. Well, sir, I think that is absolutely true.

Mr. BROOKS. And I am supporting the program, you understand. I am not against the program. It is just that we want results.

Mr. McPHERSON. Rather than my going through my comments here, let me just talk a little bit about the pipeline. Perhaps that is the easiest way to do it. In fact, the concern about our pipeline is reflected in much of my comments.

The pipeline has come about in the last few years because: (1) we have gone into about 30 more countries since 1975; and, (2) we have changed from heavy infrastructure projects into New Directions activities pursuant to our legislation—smaller projects, more technical assistance oriented. It is harder and takes a longer period of time to get those kinds of projects onstream.

A significant part of that pipeline—almost half of it—is in Egypt. The reason that we have such an enormous pipeline in Egypt is that in 1977, after the Camp David accord, a tremendous amount of money was immediately authorized and appropriated by Congress.

Rather than just turn that money over to the Egyptians, we put it into projects, and it has taken time to get those projects onstream.

Last year we did not disburse as much money as Congress appropriated. This year we will be disbursing about as much money—in fiscal year 1981—as Congress did appropriate.

Mr. BROOKS. That means the pipeline volume will remain exactly the same.

Mr. MCPHERSON. Next year, with this trend that we have in hand, I feel quite confident that we will disburse more money than we are going to be asking for Congress to appropriate.

Mr. BROOKS. Is that good or bad?

Mr. MCPHERSON. In fact, we are getting our pipeline gradually under control in Egypt. We were thrown into it, and it takes some time.

I have some problems with some of the things in Egypt, and we are working through that, but in fact it would appear from my review of this matter that we are narrowing our pipeline in Egypt and getting on top of that program.

I would hope, and I sincerely expect, that in the time ahead that the Egypt program will be a stronger and a better program.

Worldwide that pipeline is a matter—as I said—of a new kind of operation, and I would expect that worldwide as our experience in this kind of activity increases we will indeed be able to get on top of that too.

In terms of making sound use of this money, what really is happening is that AID is not going to grow in any dramatic fashion in the next few years. I would expect roughly the kind of sums in nominal dollar terms that we have had in the last couple of years.

Mr. BROOKS. You will stabilize?

Mr. MCPHERSON. Yes, sir.

Mr. BROOKS. Under this administration, and the next probably.

Mr. MCPHERSON. Given that, the concentration—appropriately, I think—is clearly going to be not on trying to figure out new ways to spend money, but it is going to be focused on carefully spending—implementing projects already in the pipeline.

Mr. BROOKS. Why do you not make a goal implementing projects of obvious benefit to the U.S. people? If they are just projects, do not implement them. Only if they are of benefit do you really want them.

Mr. MCPHERSON. Absolutely.

Mr. BROOKS. That is why I say I would change that focus—not just to get it done. It should not be “make work” projects. We have got the Defense Department on that detail. They are going to spend \$1 billion a day for the next 5 years.

It bugs me. Do you realize that old Caspar is going to be out there busy spending your whole backlog in 1 week—less than a week; they have to spend it on Saturdays, too. They will spend more than your whole budget in 1 week. Is that not interesting?

I did not mean to interrupt.

Mr. MCPHERSON. We think there are a number of things we can do to make this a stronger program for America and for the countries overseas. I am committed to the idea that when we get into a project it is going to make economic sense.

I looked at a project in a country in a recent visit where it was costing us about \$5,000 per hectare. There was no way, clearly, that that project was going to be of that much benefit to those people.

Mr. BROOKS. \$5,000 for how much?

Mr. MCPHERSON. Per hectare. It was a massive experimental program to upgrade the agriculture in the area.

Mr. BROOKS. If you buy it at \$5,000 a hectare, you are going to upgrade the heck out of it.

Mr. MCPHERSON. That is right. That is good land where I come from, the Middle West, I can tell you that.

Mr. BROOKS. Where did they do that?

Mr. MCPHERSON. It was terracing in Jamaica.

Mr. BROOKS. In Jamaica?

Mr. MCPHERSON. A terracing project.

Mr. BROOKS. That is the kind of thing that gets you in trouble.

Mr. MCPHERSON. That is exactly right.

Mr. BROOKS. I realize you did not start this, but that cat is on your doorstep, and you bought the house.

Mr. MCPHERSON. Yes, sir. We need a good neighborhood dog, sir.

Mr. BROOKS. That is right—one of those junkyard dogs.

Mr. MCPHERSON. We have got some of those at AID now.

Mr. BROOKS. You have some in AID?

Mr. MCPHERSON. I will not go so far as to say Mr. Rollis is a junkyard dog, but he is doing a good job, let me tell you. [Laughter.]

Mr. BROOKS. Do you have a short chain or a long chain for him? Are you going to work on your staffing for auditing?

Mr. MCPHERSON. Yes, sir.

Mr. BROOKS. Do you think the State Department is going to approve those people?

Mr. MCPHERSON. I think so. One of the things I have done is this: For a long time there had been a difference of opinion between State and AID on getting a new Inspector General office in Abidjan. I was able to get State's concurrence to establish the office a couple of months ago, so we now have a man in Abidjan. By the end of the year I believe, or by January, we will have the rest of the staff requirements filled.

Mr. BROOKS. That is only one area that I was intimately familiar with. There are others like that. You have got to do your accounting and monitoring very carefully if you are going to make cuts and make adjustments, to evaluate what you are doing.

Mr. MCPHERSON. That is right.

Mr. BROOKS. So you will have to utilize that monitoring force. This is not the part you want to cut. I would rather be evaluating carefully what we are doing than doing so much. So much of what we do is sometimes not productive. That is the problem you have got.

All over the world you have people rotating from one location to another. You start programs, and the people leave. I wonder if it would be worthwhile—you might just take a look at it—to send people back to evaluate the implementation of the program they started.

I realize it looks like you are sending somebody on a big trip back home to see people they worked with, or whatever; but you might consider that.

You see, you start a program one year, you are in a project 3 years, and you are working like a beaver on it. Then they transfer you to the other end of the world. Maybe it would be worthwhile to send a project manager or somebody back to look with an audit team or an evaluation team. I do not know what the economics are.

Mr. McPHERSON. I think that is worth looking into.

Mr. BROOKS. It might be. It certainly would be rewarding, informative, and instructive to the people within your organization who create and start a program to go back and see for themselves, not only through the eyes of auditors and written reports submitted when they are circulated—to give them an idea and have them write an evaluation of how that program worked out. Maybe it worked out very well. Maybe it did not come anywhere near what they were aiming for.

That kind of experience might be helpful to us in avoiding unproductive efforts in the future.

Are you going to work on reducing the time between the start of a program and implementation? Are you going to get that time cut down to where you can have more concise evaluations and judgments on whether or not it is up or out?

Mr. McPHERSON. I would like to divide this into two time frames. One is the time frame when the project first comes to Washington for review and the time when it is authorized.

We have done a pretty good job there. In the last couple of years we have reduced that period of time on the average from about 18 months to 10 months—a substantial average reduction.

Mr. BROOKS. In any really growing economy that is a long time. Of course, 18 to 10 is almost a 50-percent reduction. We commend you for that. I know that was tough enough, but it is still a long time.

Mr. McPHERSON. What we have is a constant struggle to avoid disbursing money quickly and essentially giving it to the people in the country without really knowing too much what is going to happen to it or without planning for its use carefully.

On the other hand, you have got to struggle to do things carefully, thoughtfully, and have good controls, and that kind of thing. It takes more time.

Take the Egyptian program as an example, where we have really insisted that we have got to have money go into specific programs because we believe that that is where the American dollar will be best spent.

We go back and forth on this country after country.

Mr. BROOKS. If it is not going to be well spent, if they are not going to have the people in place to work with AID personnel in implementing and putting in place a given program—which means their cooperation—then it is not worth spending a nickel. Do not spend it. Just keep it in the pipeline, and we will eventually send it all back to the Treasury.

Unless the host country is going to cooperate when the money is cranked into one of these economies, it goes into the hands of those who need it the least and understand how to spend it the quickest.

It would be true in this country if you came in with a big AID program for the United States. Look at some of our own aid programs in various counties, some of which I will not mention. Some of those were used for personal gain in the counties and cities, not really in the public interest.

You know, it takes real effort to get it into the hands of the people who are poor, who need it, whom you want to benefit. All the people in between say, "We'll take care of it. You give it to me. I'll see that they get it." But they do not say when or what they are going to get.

If you cannot get the programs in shape—and I realize there is some time in that—do not spend the money, unless the program is in shape to receive and implement it properly within a country. Just tell them, "The machinery is not set up yet, and we just cannot start until then," and be sad about it.

There is no point in your giving it away to three or four people in some country who are going to steal it all.

Mr. MCPHERSON. We agree with that, Mr. Chairman.

Mr. BROOKS. That does not help our image any.

Mr. MCPHERSON. It does not help at all.

Mr. BROOKS. We have the money; we spent the money for the XYZ program, but the people never received the benefits.

Mr. MCPHERSON. Long term it is very detrimental to this program.

Mr. BROOKS. Yes. X, Y, and Z go to Paris for the month.

Mr. MCPHERSON. Absolutely.

Mr. BROOKS. Do you agree with that?

Mr. MCPHERSON. Sure. I do not have any problem with that at all.

Mr. BROOKS. They are going to hate you at AID.

Mr. MCPHERSON. I do not think so, and I will tell you why. The average AID employee truly believes that he has a mission to perform—that helping these people to develop into a stronger people or stronger country is important. Because they believe that, they resent the corruption and problems.

A person like me who comes in and says, "We are going to manage this program well, and we are going to spend these dollars well"—they respect that, and I am getting help. I really believe that. That is not to me a small point at all.

I worked at the IRS right out of law school for a few years, and I have been practicing law or in this town for years, and I know the town pretty well.

Mr. BROOKS. He is quite a junkyard dog himself. I do not know why he is talking about you, Mr. Rollis.

Mr. MCPHERSON. The fact is that Federal Government employees want to do a good job. If you ask service from them and do a good job with them, they will work better. I think they do like what I am doing at AID. That is my point.

Mr. BROOKS. I have also a few questions I would like to submit to you for the record. Without objection, they will also be included, together with your prepared statement.

In May 1980 we requested a study by the Congressional Research Service to assess the effect and impact that New Directions legislation has had on our economic assistance programs. The study has

been completed and includes areas that we have been concerned with today. Without objection I would like to include that in the record.

[Mr. McPherson's prepared statement, submissions to additional questions, and the Congressional Research Service study, follow:]

STATEMENT OF THE HONORABLE M. PETER MCPHERSON
ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, Members of the Committee,

It gives me a great deal of pleasure to be here this morning. I am glad to have the opportunity to outline for you some of our improvement efforts in A.I.D.'s management processes. Improvement means, of course, making the Agency run as efficiently and effectively as possible. A fairly dramatic example of our effort is the symbolic \$28 million check I was privileged to hand President Reagan a few weeks ago. As you may know, that \$28 million represented the estimated deobligation of funds committed by the Agency earlier. In other words, careful analysis revealed either that those funds were no longer needed for the projects they were originally allocated for, or that the projects themselves should be and were eliminated.

Of course, deobligation is only one of many management processes at A.I.D. It is the end product of painstaking analysis and decision-making, that characterizes most normal managerial activity; deliberate attempts at improvement are still more demanding. Almost every agency in town is forced by annual appropriations to focus on current year program obligations and future years budgeting process. Any improvement in management performance is a longer-term undertaking and requires day-to-day application.

The management improvement program we launched in January had two basic objectives. The first was improving implementation of our ongoing projects, and the second was achieving administrative savings through reduction in personnel.

Implementation improvement began with a top management analysis of A.I.D.'s portfolio. Portfolio analysis, a review of all projects obligated in prior years, is regularly conducted by our responsible Regional Bureaus.

Special attention is given to troubled projects, particularly those not implemented in a timely fashion.

Last spring I initiated a centrally managed review which resulted in the deobligation I mentioned earlier. I set up a special group and got involved personally. I hope we have sensitized management at all levels to the need for rigorous portfolio analysis as a continuing process. On a quarterly basis, I expect regional bureaus to refer troubled projects to Missions or to responsible Washington staff for corrective action. I expect the continuing process to produce either deobligations or corrective action on a regular basis. These deobligations should go beyond normal deobligations for small amounts of money sometimes left over when projects are completed, or when we eliminate programs in countries from which we have withdrawn. We need to make hard decisions when projects aren't working. Corrective actions sometimes require radical restructuring of individual projects. In the long run, such restructuring may be more valuable in development terms than deobligations. In these cases the Mission brought problem projects to the government's attention and began the tortuous process of reforming them into viable undertakings. That of course is a continuing process. We gave this review top management attention and priority instead of relying upon the daily course of business to cure these troubled projects.

In the course of portfolio analysis, we discovered problems in the contracting process itself. These problem areas have been identified in a recently concluded study of our competitive contracting process by the

management consulting firm of Booz-Allen. It takes an average of ten months to award a new competitive contract. We would like to cut this time down of course, most of the actions within the contracting shop are modifications to existing contracts, extensions or renewals, which take much less time.

I would like to enter in the record a chart indicating the average number of days required for each step in the contracting process. We are targeting three of these areas for time reduction. The first is clarifying the work scope; this is the initial description by the program office attempting to purchase the commodity or service. The contract office needs a very specific scope of work which is biddable. We want to do a better job of describing the scope of work. As you can see, it takes 57 days to design a biddable scope of work. We feel that this time can be reduced without any change in processes, but rather through increased concentration by both program and contract offices and increased cooperation between them early in the process.

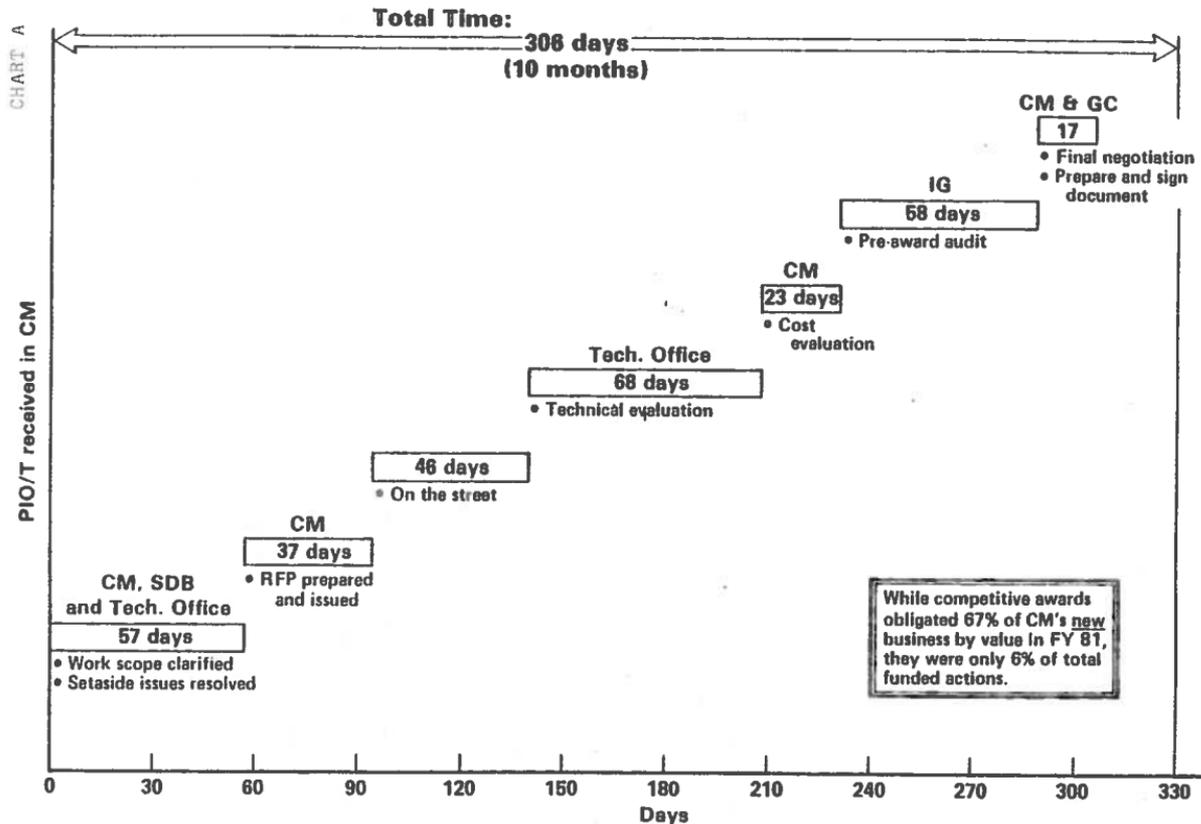
The second major area for improvement is in the technical evaluation process. The average elapsed time is over two months for the technical review panel to meet and rank competing proposals. Analyzing competing proposals occupies some of this time, of course, but most of it is spent just getting the teams together. Essentially, this is a scheduling problem. The solution lies in the program office giving priority to this function by making its project officers available for the technical evaluation panel on a timely basis.

A third area of delay is the preaward audit, which takes 58 days. Many of these are done by another agency, the Defense Contracting Audit Agency. Needless to say, our own audit staff, like all audit staffs, is short of the personnel necessary to do this kind of work. Nevertheless, a better internal scheduling system within the audit shop can shorten the time line. We are also raising the threshold of General Counsel review of contracts from \$100,000 to \$500,000 and the threshold of non-competitive procurement board review from \$100,000 to \$250,000. This is not to say that we are allowing all non-competitive procurement requests below \$250,000. Rather, the authority to grant them by the same rules that the board uses would reside with the contracting officer. This eliminates the time-consuming process of board review and approval.

Other steps include increased use of special clauses such as "time is of the essence," limits on substitution of personnel, and clearer definition of exactly what we are buying from the contractor. We are also gearing up to make increased use of termination proceedings where contractor performance is less than adequate.

A factor inhibiting performance in the field is the limited ability of the Mission Directors to act on their own authority. We have changed this in a number of ways. We have increased the delegation of project approval authority to the Assistant Administrators here in Washington, and from them to the Mission Directors, from \$10 to \$20 million. We have selectively authorized the Missions to approve projects with a more extended life.

AVERAGE CONTRACTING TIME: FULLY COMPETITIVE



Data from Booz, Allen Report dated July 7, 1981.

Previously they could on their own authority approve projects of up to five years duration. We have doubled that. Grant authority in the Missions formerly was limited to \$1 million. We have increased that to \$5 million. On a selective basis, we have also increased the Mission's authority for operational program grants to U.S. Private Voluntary Agencies from a half million dollars to \$1 million. Through these expanded delegations of authority we expect to pare considerable time from the contracting and project approval processes.

The decentralization of authority will require a higher degree of responsibility by our managers in the field. As you will see later, we are taking precautions. We are maintaining the Inspector General's program at a time when the Agency in total is reducing its employment by about 5 percent through September 30, 1982.

This leads me to the second area of administrative streamlining at A.I.D., our program of reductions in personnel. It was begun early, focussing on the on-board permanent personnel as of January 31, 1981, to more accurately represent the effective level of effort of the preceding period. With your permission I would like to enter into the record a chart indicating the January 31 internal ceilings for headquarters and overseas, the numbers on board and the new hiring limits which will be effective as of September 30, 1982.

Two principles guided our distribution of ceilings for fiscal 1982. First, we wanted to make every effort to implement the program without

PERMANENT FULL-TIME EMPLOYMENT CEILINGS

CHART B

JUNE 27, 1981

<u>Organization</u>	<u>1-31-81 Internal Ceiling</u>	<u>On-Board 1-31-81</u>	<u>Hiring Limit Number</u>	<u>On-Board vs Hiring Limit (Reduction) Increase</u>
Administrator	14	14	8	(6)
Executive Secretariat	14	14	15	1
External Relations	47	43	54	11
General Counsel	52	51	46	(5)
Inspector General	116	87	87	-
Equal Opportunity Programs	9	11	9	(2)
BIFAD	8	10	8	(2)
Office of Foreign Disaster Assistance	22	18	16	(2)
Science Advisor	7	0	2*	2
Private Enterprise	55	54**	69	15
Food for Peace and Voluntary Assistance	78	68	69	1
Management	806	763	693	(70)
PPC (including IDCA)	157	164	110	(54)
Science and Technology	312	288	259	(29)
Africa	215	197	180	(17)
Asia	123	116	101	(15)
Latin America and the Caribbean	124	117	103	(14)
Near East	150	127	117	(10)
Washington Total	<u>2309</u>	<u>2142**</u>	<u>1946</u>	<u>(196)</u>
Overseas - U.S. Nationals	1625	1488	1475	(13)
- Foreign Nationals	1944	1892	1850	(42)
	5878	5522**	5271	(251)**
Authorized Ceiling 9-30-82 (IDCA/AID/TDP)			5269	

*Tentative, subject to further discussion.

**Overstated by double counting 11 FSR in TDP.

impairing A.I.D.'s overseas presence. As you can see by the chart, the hiring limits for U.S. nationals declined by only 13 people, a reduction of one percent or so. The foreign national decrease of 42 represents a two percent decline, both of which are relatively minor. We preserved the position ceilings overseas at 1,625 and 1,944, respectively. Normal attrition will achieve these modest reductions overseas.

The second principle was to reduce redundancy. For instance, in the ten percent reduction in headquarters, we are attempting to achieve a reduction in duplicative review procedures. The major percentage reduction occurred in our Program and Policy Coordination group, including the IDCA employees. That group declined from its on-board in January 1981 of 164 to a projected 110—almost a third decrease. The PPC group and the IDCA group perform principally a review function. By joining the two separate review functions we expect to ease the burden on our Missions for reporting and justification.

Similar deep reductions were made in Science and Technology, Africa, Asia, Latin America and Near East Bureaus. These reductions forced reorganizations within these headquarters units. The effect is to reduce the shuffling of paper and layers of review within those organizations. We also reduced the immediate Office of the Administrator and the Executive Secretariat by a net of five. In that way, we allowed for the addition of Congressional liaison employees within the External Relations area. Increases occurred to recognize the creation of both the Science Advisor's office and the new Bureau for Private Enterprise. As you can see from the chart, the

Inspector General's program was exempted from the sharp reductions for on board strength imposed elsewhere in Washington, as I mentioned earlier. While a number of vacancies existed in January 31, 1981, the effective strength in Washington of 87 employees was not reduced. Currently, only the Inspector General's office is proceeding with normal hiring.

We hope to achieve this disproportionately large decrease in Washington without a reduction in force. Humanitarian concerns are important here, and we want to avoid the management programs a RIF creates through the bump and ripple effect. To achieve the reduction through attrition, we started early in using the 1982 target instead of the higher 1981 limits. We have instituted a modified Washington hiring freeze and on August 5 began a replacement program to put occupants of deleted positions into continued position vacancies. We are using the September 30, 1982 hiring limit as the authorized ceiling in Washington, thus eliminating the lapse cushion here.

We anticipate future reductions in permanent personnel in the years 1983-1986. Consequently, I have formed a Task Force headed by the Budget Chief and including representatives of the Regional Bureaus and central bureaus. The purpose of this Task Force is to analyze our overseas mission strength to determine where savings can be made in the future. We intend to analyze each Mission individually for the relationship of their current total strength including contract personnel, U.S. direct hires and foreign service national direct hires. Some savings in total strength is expected.

We also anticipate the Task Force will increase the use of contract personnel to replace foreign service nationals in unskilled labor and clerical positions. We feel that it is in the best interest of the Agency to have this type of personnel on a contract overseas to increase the flexibility A.I.D. needs in its changing priorities among the 60 countries in which we operate. At the same time, we intend to increase the use of foreign nationals in our higher-graded technical positions in keeping with one of our major objectives--to increase the technical capacity of the Agency. Sending U.S. nationals abroad to staff our technical requirements is expensive. It costs much more to pay for a year abroad for a U.S. foreign service employee than a foreign service national. The difference is not in salaries alone, but in the housing allowances, travel, home leave and the other expenses that a U.S. national incurs abroad.

Other steps towards administrative savings and improving the performance of the Agency include completion of a new financial accounting system over the next year. This will combine a number of our operating systems and simplify the reporting procedures while allowing us to retrieve more usable data. As a part of this we have test projects under way in Tegucigalpa, Honduras, and Cairo, Egypt to provide a uniform Mission accounting system. When perfected, the new uniform Mission accounting system will be installed over the next few years and automated in those Missions having the volume of business necessary to justify it. Included in this program is a linking of the Washington headquarters data processing equipment with standardized equipment in the field.

However, improved systems, whether automated or manual, are not the real answer to improving contractor and personnel performance. A couple of weeks ago we convened our first management policy staff meeting to discuss Agency priorities and policy areas. The first meeting was called to discuss ways to improve the performance of contractors and our own personnel. We were able at this meeting to identify several areas where we can improve. I would like to review them briefly with you.

The first is what might be termed management involvement in the problem. In the contracting area if our scope of work is not clear, if it is not made a condition of the contract that timely performance is required, if the direction throughout the course of the contract by our own employees is not clear and reasonable and communicated to the contractor, then we will have a problem in upholding the rights of the government to receive what it has purchased. Similarly, in the employee area, if managers have not made clear to the employee what is expected of them and documented that fact, then it is unfair to the employee to suddenly expose him or her to disciplinary action.

A second area that acts as a deterrent towards management concentration in this area is the inordinate time required to correct a deficiency. In the normal course of events an employee does not turn non-productive overnight, nor does a contractor suddenly cease performing. It is a process and one that the manager must follow every step of the way. Again, suddenly deciding the employee or the contractor should be terminated does not grant due process, and in fact is not in the interest of the Agency.

The third problem is the difficulty of carrying forth an action in these two areas due to the high degree of divided responsibility. That is, the action taken by management is subject to review by many authorities. The case of an employee, for example, is subject to review by an internal board, the Labor Relations staff, General Counsel, possibly the Equal Employment Opportunity Commission and the Merit Systems Protection Board, with a possible further review by the Courts. Similarly, contracting performance discipline involves a number of review layers.

A fourth problem is that when a manager reviews the difficulties of enforcing performance standards, the alternatives seem much more attractive. In the case of an employee, the manager can transfer the employee, put him or her in a less sensitive position, require more of the employee's colleagues, or just put up with decreased unit performance. In the case of a contractor, if the manager is to terminate the contract, the manager must then go back through the lengthy contracting process in order to acquire a successor contractor.

These problems require a high degree of resolve on the part of our managers. It is a resolve that I have requested of our top managers and expect them to require of their subordinates. In my opinion, the difficulties of compelling performance in either of these areas must be overcome in specific cases. In that way, the tone of the Agency will change. Contractors and personnel generally will understand that more is expected of them this year than was required in prior years.

I can assure you that the fifth problem in increasing performance, lack of top management support, is no longer an issue at A.I.D. Now with your permission I would like to outline for you the programmatic priorities that I have stressed during the first months of the new Administration.

Let me outline for you the four main thrusts of this Administration's A.I.D. program. It will give you some idea of what we hope to accomplish in the years ahead.

We believe that the policies and programs of the Third World are more important than the assistance we give them. This point is critical. No doubt, our assistance is very important to bring reasonable economic growth, but the Third World will grow and prosper first and foremost because of its own policies and programs.

Let me give you an example. Often countries hold down the price of food, usually in order to placate the urban population, because there can be food riots. It is there that the politicians feel the pressure. But if you hold down food prices, the farmers end up realizing that they will lose money or at least not make money by producing more. As a matter of fact, the farmer decides in the end not to produce much more than what he and his family can eat.

In my position I have been presented with several such cases since I've been here. It is my belief that the U.S. Government owes it to our taxpayers not to invest A.I.D. funds in efforts to increase food production where

government policies obviously discourage production. What really is needed is that governments allow prices to rise to market level so that it would be worthwhile for the farmer to produce more. Perhaps I'm a bit biased. Having grown up on a farm and watched my father's response to prices, I'm deeply convinced that farmers aren't dumb. In fact, around the world we have found that farmers respond positively to being paid for the work that they do.

I want to be sensitive to policy considerations such as that all across the spectrum of health, of education, and so on. Policies make a critical difference.

It's also critical, we think, that we apply hard economic criteria to our programs. We should look and see how many people are actually going to benefit by foreign assistance programs to a given country and project. I have found a few A.I.D. projects costing thousands of dollars per hectare and would cost that much to duplicate. I have moved to eliminate these projects or make them more efficient. We should see if a project is an efficient, reasonable use of monies. There are a lot of options for the use of our foreign aid funding and we don't need to get tied into this project or that project. We can weigh projects and assign priorities in terms of anticipated results.

Also, we think that the private sector can play a much bigger role in the years ahead. There are a variety of ways that we feel that we can stimulate this. We have designated a new Assistant Administrator for Private Enterprise who is pulling together these programs. I won't go into details about this, but there is a great deal we think we can get both U.S. private enterprise and indigenous enterprise to contribute to development.

Lastly, we think we need to increase what we call institutional building or development. Countries are like people. They continue to grow and change. The questions for us individually is not only what we can do today but what with training, with maturity, we can do for ourselves in the future. The U.S. A.I.D should not be in the business of giving fish to people. We should be in the business of teaching people how to fish. We need to transmit knowledge and build institutions in which the knowledge is used. We need to help build institutions so that people in the Third World can do for themselves-- I am thinking of institutions like agricultural extension systems and village health programs. This approach to assistance is truly treating a poor country as a sovereign: Too often foreign assistance has been a hand-to-mouth program. It should be a hand-to-hand program. We are not always going to be there. Our resources are relatively limited and our role is not to engage in international welfare. Our task is to help people help themselves.

QUESTIONS SUBMITTED TO THE AGENCY FOR INTERNATIONAL DEVELOPMENT
FOR OFFICIAL AGENCY RESPONSE IN CONNECTION WITH SUBCOMMITTEE
HEARING OF OCTOBER 6, 1981 -- AID'S ADMINISTRATIVE AND
MANAGEMENT PROBLEMS IN PROVIDING FOREIGN ECONOMIC ASSISTANCE

1. QUESTION: What criteria do you use to establish the size of missions and Washington offices and how is the mix of direct hire and non-direct hire personnel determined?

ANSWER : Agency programs as authorized by the Congress are the primary determinants of direct hire and non-direct hire numbers and skills mix for each of AID's organizations, both overseas and in Washington. The size of the individual missions is determined by the nature and size of the programs approved for the specific country. The availability of local skills also determines the need for U.S. direct hire in any particular country. A further consideration determining utilization of direct hire personnel is the degree to which AID must directly monitor an overseas activity to ensure its successful progress and completion. Direct hire staff are used primarily in those areas requiring policy making decisions regarding funds and to handle classified materials. The use of direct hire staff is limited primarily by the extent of operational funds appropriated by Congress and employment ceilings. Non-direct hire personnel are utilized primarily to perform the actual implementation of the programs and projects undertaken in any specific area.

2. QUESTION: Has AID developed estimates of the number of employees needed, by category of direct hires and types of skills that will be needed in the immediate and distant future?

ANSWER : AID annually develops an estimate of the number of employees needed for the operating year, budget year and the out years. A five year estimate is now required under the new Foreign Service Act. This projection will be developed in concert with the annual budget and compiled basically by the lowest level organizational unit, both overseas and in Washington. The projection will be reviewed in connection with fund requests in a process culminating with approval by the Administrator and submission of the Agency's budget request to the President. These projections will be revised annually, and more frequently if necessary, in the event of changes in program direction or content or budget availabilities.

3. QUESTION: Should AID staff be composed principally of "generalists" or "specialists?"

ANSWER : AID has for some time maintained the policy that both generalists and specialists are required to implement its highly technical activities abroad. However, it is important to note that with the limited direct hire staff resources allowed, it is also Agency policy that individuals hired at the middle and junior levels, whether generalist or specialist, be screened and employed under the presumption that they have or will develop managerial skills as they rise in our personnel system. Overseas, virtually all of the direct hire foreign service employees are engaged in the dual task of using their technical skills and managing AID supported projects and activities in consort with host country project managers.

4. QUESTION: Provide an estimate of additional funding needed to "fully fund" all September 30, 1981 active projects.

ANSWER : All projects active as of September 30, 1981 could be fully funded through the end of the project with \$3.5 billion for Functional Development Assistance and Sahel Programs and \$1.5 billion for the Economic Support Fund.

5. QUESTION: What specific problems is AID experiencing in the development of new projects?

ANSWER : The development of new programs in response to U.S. foreign policy initiatives of the past several years has generated a significant added work load to the Agency program and project units. Following the guidance of the Congress to shift an increasing portion of our resources into "basic human needs" activities dictated that more efforts would be spent on data collection, design and, in many cases, negotiations over recipient country policies and strategies. The design process has also become more complex because of environmental considerations, energy issues, women's roles, inflation, PVO/recipient country/other donor involvement.

5. (cont'd)

Satisfying these additional requirements has not been easy for small field missions and is becoming increasingly difficult through the medium of outside consulting firms. The Agency has trained hundreds of people in its Project Design and Evaluation course, but such staff development is only a partial answer to the decline of overall AID personnel levels and the departure of experienced personnel. The agency is nevertheless, trying to meet its design problems by:

- amending ongoing activities to expand and/or improve their impact (instead of starting a separate project);
- consolidating assistance efforts within a country;
- revising policies and guidance for project designers (Handbook 3);
- providing more technical assistance to host countries to improve their capabilities to develop projects.

6. QUESTION: Do the host governments understand and accept U.S. contracting and procurement procedures which they are required to follow?

ANSWER : Guidance to host countries who undertake contracts with AID funds is set forth in AID Handbook 11, Country Contracting. This Handbook is provided to the host country by the responsible overseas AID organization. If AID's principal officer at post is not satisfied that a host government has the required capability to contract in an acceptable manner, he has the authority to undertake contracting directly either at his post or through AID/W. In addition, all host country contracts over \$100,000 are subject to review and approval by AID's principal officer at post.

7. QUESTION: What are AID's plans for assisting project officers in monitoring host country contracts?

ANSWER : AID plans to issue a "Project Officers' Guidebook on Host Country Contracting" in December of this year. Last year, the Agency issued a companion guidebook on project officers' responsibilities for managing AID direct contracts, grants and cooperative agreements. It was distributed to all AID project officers worldwide as well as to a number of contractors, private and voluntary organizations (PVOs) and host government ministries. These two guidebooks are part of AID's continuing efforts to improve project implementation planning and monitoring.

8. QUESTION: What are some specific examples of lessons learned being applied to ongoing projects and programs and to policies affecting future programs?

ANSWER : Since most of AID's evaluation work is intended to improve ongoing programs, most of the cases of utilization of evaluation findings are in such programs. A large number of programs have been changed, cut or expanded, as appropriate to the evaluation findings. For example, in Senegal the Sine Saloum Health project was cut back and drastically changed due to problems discovered in its evaluation, while the evaluation of the Sahel Food Crop Protecting Project demonstrated excellent results and the project was expanded to cover all of the Sahel with a wider range of services. In Nepal, an evaluation of the Radio Education Project led to its redesign.

The Agency impact evaluations are intended to improve Agency policy. These studies are relatively new and therefore the policy applications are fewer. The Agency's work in evaluation of livestock programs led AID to be more cautious about this difficult sector. Its evaluation work in rural roads led AID to realize that there is a need for Agency policy in rural transport and a policy drawn directly from this evaluation work is currently being formally considered.

AID expects policy lessons to be drawn in the impact evaluation work being concluded shortly in potable water, education, agricultural research and other sectors. In the meantime, "Lessons Learned" (a summary of findings) are circulated as each impact evaluation is completed so that program and project designers have the benefit of this important evaluation work, even before a series is completed and general policy lessons drawn.

9. QUESTION: What is the total amount of development assistance projects funding that was sent in FY 1980 and FY 1981 for host country contracts and AID direct contracts?

ANSWER : AID let approximately \$271 million in direct contracts and funded between \$800 million and \$1 billion in host country contracts during FY 1980. In FY 1981, we project that \$280 million worth of direct contracts will be let and approximately \$800 million - \$1 billion in host country contracts will be funded.

10. QUESTION: What was the AID hiring ceiling in 1975 as compared to the current ceiling?

ANSWER :	6-30	9-30
	<u>1975</u>	<u>1982</u>
U.S. Direct Hire	5,747	3,419
Direct Hire Foreign Nationals	<u>2,453</u>	<u>1,850</u>
TOTAL CEILING	8,200	5,269*

*Including IDCA and TDP.

11. QUESTION: What steps has the agency taken to assure that contractors and host government agencies submit progress reports in a timely manner and that such reports accurately reflect implementation progress and problems?

ANSWER : Implementation of projects is a responsibility of AID's principal officer in the country concerned. Before approving a host country contract, that Officer must ensure that the host government understands the reporting requirements and establishes adequate reporting procedures with the contractor. In addition, all vouchers submitted by a contractor for payment must be endorsed by a responsible host government official before payment by the USAID Controller. This payment procedure serves as a means to enforce effective implementation and reporting.



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LETTER OF SUBMITTAL

July 13, 1981

Honorable Jack Brooks
Chairman, Committee
on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your request I am submitting a study on the New Directions mandate from Congress and the Agency for International Development.

The study examines past U.S. development assistance policy, the 1973 and subsequent New Directions policy changes, the response of AID to the congressional mandate, problems inherent in the mandate and future bilateral development assistance scenarios.

Theodor W. Galdi, Specialist in International Political Economy, was the project coordinator and author of several sections of the report. Other contributors to the study from the Foreign Affairs and National Defense Division were David E. Lockwood, Specialist in U.S. Foreign Policy and National Defense; Allan S. Nanes, Specialist in U.S. Foreign Policy; and Larry Nowels, Foreign Affairs and National Defense Information Analyst; and James Warlick, Research Fellow.

Professors Steven Arnold, James Weaver and Coralie Bryant of the American University drafted major portions of Part III of the report under contract to the Service. They were assisted by David Krohmal, Ann Lewis, Beth Shields, Donna Ferrantello and Ronald Sprout.

Production support was given by Nancy Robinson, Carolyn Colbert and Mary Jane Berens.

I hope that this study meets your needs and helps Congress in its oversight responsibilities for U.S. aid programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Gilbert Gade". Below the signature, the name "Gilbert Gade" and the title "Director" are printed.

Gilbert Gade
Director

Enclosure



Washington, D.C. 20540

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THE NEW DIRECTIONS MANDATE
AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Prepared by
Foreign Affairs and National Defense Division
Congressional Research Service
July 13, 1981

THE NEW DIRECTIONS MANDATE AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreword

Executive Summary

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 - A. The Original Legislation
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- V. Conceptual and Practical Problems Inherent in New Directions Projects: A Critical Appraisal
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FOREWORD

The six parts of this study examine certain aspects of the reaction of the Agency for International Development (AID) to the New Directions changes in U.S. foreign aid and policy mandated by Congress in 1973. The first two parts provide necessary background. Part I deals with the historical antecedents to the changes, the justifications used before Congress to gather support for the legislative changes, adequacy of the explanation of the implications of the changes, and an examination of the justifications in light of more current research on the economic performance of the less developed countries. The second part is a legislative history of the New Directions provisions in the Foreign Assistance Act and other pertinent legislation from 1973 to 1980. The third -- and major -- part of the study examines the efforts of AID to respond to the congressional mandate. This section details the evolution of New Directions policy statements at AID, institutional and personnel changes, and finally the specific responses and reactions of AID regional bureaus and field missions. The fourth part sets out the methodological difficulties in assessing the impact of New Directions programs on less developed countries (LDCs) and then examines changes in the allocation of U.S. development assistance by budget account, by region, and by intended beneficiary. Then, several AID project impact evaluation studies that have dealt with New Directions projects are discussed. The final two parts present conceptual and practical problems that appear to be inherent in New Directions projects and a set of scenarios for possible future bilateral aid programs.

EXECUTIVE SUMMARY

In 1973, Congress passed amendments to the Foreign Assistance Act which were intended to reorient the U.S. bilateral development assistance effort. The "New Directions" changes in policy ordered the Agency for International Development (AID) to focus its development assistance programs on the poorest, usually rural, majorities in the developing countries. In 1974 AID was directed to insure that to the greatest extent possible, this effort was to involve the participation of the poor in the aid process.

Since 1974, the Agency for International Development has made major changes in policy, personnel, and procedures consistent with the New Directions mandate from Congress. However, due to the nature of that mandate, the way it has been transmitted, the agency's policy making process, and the nature of development, many problems and unresolved issues remain.

The basic goals of U.S. bilateral economic aid programs have been relatively unchanged since at least the early 1950s. What has changed, however, are the target groups and the strategies for accomplishing those goals. Early development assistance programs were designed to benefit the entire less developed country's economy. Projects were designed to help create physical infrastructure as well as to help specific groups, such as farmers. Congress' instructions as to how to accomplish this economic development and where to focus U.S. assistance were given only in the most general terms.

By 1973, however, two factors were at work influencing the evolution of U.S. foreign aid policy. First, some academics and development specialists were arguing that the benefits of the then extant "trickle down" strategy of development -- a strategy whereby aid was concentrated on those economic sectors in the less developed countries (LDCs) with the greatest likelihood for growth with the expectation that the economic benefits of the

resulting growth would "trickle down" through all strata of developing country society -- were not reaching the poor, rural majorities in the LDCs. The second factor was the difficulty that foreign aid had encountered in Congress. In 1972, one aid authorization bill had been defeated in the Senate and the authorization bill that finally did pass died in conference at the adjournment of the 92nd Congress. Thus, many who were concerned with continuity of aid efforts believed that a major reorientation of aid policy would be needed to make congressional support politically feasible.

The New Direction approach evolved in several settings. Staff work in the Foreign Affairs Committee, analysis in AID, and efforts in private development organizations were all important elements in producing the legislation. Though these efforts preceded the drafting of the legislation, the justifications for the legislation and its implications occupy a very small amount of space in the record of the hearings on the 1973 foreign aid bill. The House Foreign Affairs Committee report on the bill is fairly detailed in its coverage of the new approach, but the floor debate suggests that Members did not focus attention on what, in retrospect, appears to have been significant modifications in development assistance policy. The floor debate in the Senate does indicate that it was more aware of the changes and generally approved of them.

At the time of passage, the theoretical and empirical bases for the New Directions policies were only partial and suggestive. Subsequent research suggests that high growth rates in the LDCs during the 1950s and 1960s did produce greater benefits for the poor than many believed in 1973. Nevertheless, the strong view that U.S. aid programs ought more directly and explicitly to benefit the poor in the LDCs, which shaped the New Directions initiatives, continues to enjoy support.

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The New Directions changes have been subjected to legislative refinement and specification that is a long-term characteristic of the Foreign Assistance Act. Over time, more detailed goals had been elaborated -- eventually by sector or subsector -- and more specific target groups -- instead of LDCs, the poor, and then the rural poor. The 1973 legislation set out fairly general policy guidance for AID. But, as the legislation evolved, more problems and subgroups were targeted specifically in law and further limitations were set on existing aid programs.

Several years of legislative refinement paradoxically resulted in so much detail, so many specifically targeted problems and groups and so many caveats, that AID has wide latitude in determining where to focus its priorities in those development assistance projects which fall under the New Directions requirements.

Several factors influenced the AID policy making process as the Agency responded to the New Directions mandate. AID organization was one. In making policy, the views of top agency management, the Bureau for Program and Policy Coordination (PPC), the four regional bureaus, and AID field missions were all taken into account. Another factor was the nature of the AID development mission. AID personnel argued that each recipient country represented a special case and that policy must take that uniqueness into consideration. The nature of the appropriate overall AID strategy for development also elicited divergent views. Some AID personnel advocated a sectoral strategy which concentrated on the slightly better off small farmer and on economic factors retarding increases in production. Advocates of a participatory strategy for development preferred to concentrate on the poorest LDC farmers and were more concerned with institution building and social change, and

less concerned with economic growth. Finally, the 1973 Congressional New Directions mandate itself was provided only general guidance. The New Directions philosophy was at that time very new, and a solid intellectual base had not yet been completely constructed. Few actual cases of the desired "growth with equity" strategy existed.

As AID officials interpreted and evolved New Directions policy/guidance, they tried to accommodate the initial general Congressional mandate and later specific amendments, as well as the contending view points within their own organizations as to appropriate strategies for New Directions development. The result of the interplay of these factors was consensual policy; policy that was both very elaborate and not very precise. Furthermore, because of the myriad sources of policy -- Reports to Congress, statutory language, AID Policy Papers, the AID Handbook, Congressional Presentation Documents, Airgrams to the field, special study committee reports -- the authoritative status of any single policy statement was unclear.

There were important elements of continuity within AID. The New Directions changes were, in fact, quite consistent with a general orientation that had been undertaken by AID in 1972. AID Policy Determination #48 and an AID Policy Background Paper, both issued on October of 1972, set out a series of policies that were in many respects precursors of the subsequent Congressional mandate. These included increased concern with a more equitable distribution of the benefits of development, and an increased concentration of AID resources in the functional categories of agriculture and food production, population control, health care and low cost education.

Indeed the initial response of AID to the New Directions mandate was to concentrate on the development and use of revised budget categories. However, in 1974, the House Foreign Affairs Committee requested from AID a report on the implementation of the New Directions mandate. In essence, the 1974 request was an attempt by Congress to press AID to operationalize the broad, general guidance passed in 1973.

The 1975 report to the Foreign Affairs Committee set out AID's first detailed policy response to the New Directions mandate. This effort was followed by a series of Policy Papers, Reports, Airgrams and other documents that elaborated and refined the Agency's policies. By 1977, the New Directions policies had evolved to encompass a "Basic Human Needs" Strategy. The latter was, among other things, an attempt to encompass both the participatory and sectoral development strategies. Thus, the new strategy was designed to help the poor meet their basic physical needs, and to combine "the employment and equity features of earlier approaches with an explicit concern for increasing the production and availability of basic goods and services for the poor majority."

While there is presently general agreement on the outlines of the New Directions/Basic Human Needs Strategy, definitional problems still exist. Within the poor majority, which groups should be the focus of attention? Is there a necessary trade off between growth and equity? What does "a collaborative style" mean in terms of attempting to advocate changes in host country policies or in advocating New Directions programs to host country governments? Resolution of these questions still appears

to depend upon the circumstances of the particular project rather than overall agency policy.

If an organization were specifically designed to implement New Directions policy, it would be staffed with individuals whose skills were particularly suited to the design and implementation of disaggregated, small, socially complex projects. Reality dictated otherwise. AID's staff had a mix of skills and a disposition of its workforce that were in many respects ill-suited to New Directions. The New Directions mandate was only one of the factors AID had to consider in designing and executing its personnel recruitment and training policies after 1973. Beginning in the late 1960s and running past the termination of AID programs in Vietnam was constant congressional pressure to reduce agency employment. A subset of this concern was a simultaneous desire, especially after the New Directions mandate, for AID to have fewer people in Washington and more in the field.

The initial resolution of these conflicting pressures was a reduction-in-force. This was followed by down-gradings and semi-forced early retirements. So, instead of growing and seeking employees with skills particularly suited to New Directions projects, the Agency was shrinking and being left top heavy with personnel better suited to carry out AID's earlier mandates. At the present time, the agency still has almost twice as many U.S. direct hire employees in Washington as overseas.

AID has, through various training programs, attempted to reorient its existing work force towards New Directions programs and policies.

Increasingly AID has become primarily an agency for designing projects, contracting them out and monitoring their implementation rather than an agency

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whose employees are directly working on development projects. While the House Appropriations Committee in the past has recommended increased contracting as a device to create a more efficient agency, the extent of contractor involvement in all phases of agency program execution is striking. This shift from direct program responsibility to contract design and monitoring has meant that AID has found it difficult and cumbersome, to exert a reasonable degree of control over its projects. AID has had to convert staff with technical implementation skills into project monitoring roles, and significant problems have arisen in the transition to an organization that manages development projects through contract intermediaries

The assumption that AID would be a "temporary" agency and would not continue for any length of time has been a major factor in its organizational history. Many needed management improvements have been deferred and confusing situations allowed to continue because of this assumed impermanence. Manpower planning continues to be rudimentary in spite of the changes in required skills entailed by the New Directions mandate. The agency remains physically scattered throughout the Washington area, and as new tasks have been assumed, new offices have been established in other, dispersed, locations. Inter-office coordination remains a major chore. The 1978 reorganization, only the second in the agency's history, was heavily influenced by the need to manage the new program responsibility that had arisen out of the change to New Directions and greater contractor implementation.

AID's interpretation of the requirements of New Directions policies has given rise to an extremely complex and detailed project design process. In

their initial phases, very detailed information is used to design the projects. Then they go through levels of extensive AID and field review. Projects can take two years from inception to approval, and another year can elapse before personnel are in the field to implement them. A three year delay between an original idea and the start of a project can encompass major changes in the economic, social or political circumstances in a project area. Complaints within AID that project design now uses too much high quality talent and too many resources, appear to be well taken. The result of the interaction of complex legislation, complex AID policy, and a complex design process often seems to be projects that are elaborate in rhetoric and goals, but not necessarily more likely to succeed than ones that are developed more directly and expeditiously.

Almost as a concomitant, project implementation has not received the kind of sustained attention necessary to ensure successful projects. The GAO has recently documented many of the agency's project implementation difficulties. Training courses in implementation were not instituted until 1980 and do not appear especially thorough.

The reactions of AID's regional bureaus to the New Directions mandate were as varied as their regions of responsibility. To take the first of two polar cases, the leadership of Latin America bureau, which had been supporting New Directions type programs prior to 1973, welcomed the mandate on philosophical grounds; reoriented the Bureau's programs to those which met the new requirements; but, because Latin America was a relatively wealthy area, were not as enthusiastic about the negative budgetary impact of the changes on their programs.

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At the other pole, the leadership of the Africa bureau, dealing with the poorest region, was not enthusiastic about the New Directions mandate because the region was so poor. Africa bureau people felt that Africa needed infrastructure projects more than the other regions. Bureau personnel felt that their region was so poor that the unwillingness to fund infrastructure projects worked against them. In addition, Africa bureau personnel were concerned about the recurrent costs inherent in many New Directions programs because of their belief that the countries in their region simply could not afford these costs.

To determine the effectiveness of AID in the actual implementation of New Directions projects would require field research to verify that the projects accomplished what was intended. However, it is possible to use less conclusive data to determine the extent to which AID has reoriented its programs to accomplish New Directions goals. With the goals drawn from legislation and AID policy, New Directions programs ought to benefit the rural, poor majorities in the LDCs.

Drawing upon the extremely poor institutional memory system of AID, some project documents were obtained for FY 73-74 and almost all of the project documents for FY 79-80. Using these documents as primary sources, data were compiled on three bases: changes in project allocation by AID budget category; by region; and by intended beneficiary.

The results of this compilation are striking. In 1973-74, 38 percent of AID development assistance was in the agricultural, rural development and nutrition category. By FY 1979-80, this figure had risen to 65 percent -- almost two-thirds.

While the actual amounts of aid to every region stayed the same or increased between FY 73-74 and 79-80, significant shifts took place in the

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amounts for each region as a percentage of total agency aid. Latin America, a relatively wealthy region, experienced a decline from 32 percent of the total to 26 percent. But, anomalously, so did Asia, a poor region -- decreasing from 47 percent of the total to 40 percent. The big regional gainer was Africa which went from 16 percent of total aid to 27 percent. The Near East also experienced a slight increase in U.S. development assistance in this period.

A significant reorientation has also taken place in the identity of intended project beneficiaries. AID has retargeted the beneficiaries of its projects. According to the -- incomplete -- project documents for FY 73-74, approximately 26 percent of AID's projects were intended primarily to benefit the poor. By 1979-80, 72 percent of the proposed projects named the poor as intended beneficiaries. To what extent the data reflect real changes in projects, and to what extent they only represent changes in project justification is not verifiable short of on-site inspection.

While AID has clearly sought to reorient its programs to accomplish New Directions goals, there appear to be a set of difficult problems that are inherent in New Directions projects. These problems arise largely from trying to target the benefits of development projects to the poor. Among the more intractable problems are high continuing economic and bureaucratic overhead support costs in comparison to other types of development programs; an inability to determine the political effects of bypassing existing host governmental structures; unrealistic expectations of a high level of participation by project beneficiaries, requirements for very sophisticated project design information; the inability to create local institutions to represent project beneficiaries and to distribute the benefits; the displacement of AID resources from growth oriented projects to equity oriented projects which

host country governments cannot or will not fund over the long term; greater AID involvement in the activities of host country operational ministries, unrealistic requirements of New Directions projects for competent mid-level LDC bureaucrats; and requirements for complex bureaucratic cooperation among LDC ministries and between AID and LDC bureaucracies. All of these difficulties mean that New Directions projects will be difficult to monitor, and that it will be difficult to determine whether, and to what extent, they have been effective.

For the future, there is a range of options for the United States if it chooses to continue a bilateral development assistance program. The options range from no change to what could be called expanded New Directions, to different New Directions, to no New Directions. Expanded New Directions would widen the target groups to be reached, concentrate less on economic growth and more on equity and institution building in LDCs. Different New Directions would involve the same basic thrust as the current program but with much greater emphasis on income generating activities, and targeting potentially productive groups. No New Directions includes three sub options: Increased Economic Support Fund, and programs called new infrastructure and "no strings" aid. Increased ESF would overbalance further the existing bilateral aid program to favor the broad range of ESF programs: cash grants, commodity import programs, specific, larger scale development assistance programs. New infrastructure would involve reorientation back to the basic aid philosophy of the late 1950s and early 1960s. Finally, in no strings aid the Agency would basically act as a financial conduit either to LDC governments or U.S. firms to pay for turnkey development assistance programs. Each of these options has consequences for Congress, AID, and the aid recipients. Which, if any, of these illustrative options is chosen is for Congress to determine.

POLICY ISSUES FOR CONGRESSIONAL RESOLUTION

1) Has there been too little time to determine whether projects conceived and designed under the New Directions mandate are effective in themselves or as part of a growth with equity strategy? Some say that since the specific implications for projects of the mandate were not clarified until 1975, five years is too little time to evaluate fully the far-reaching New Directions shift; many of its major benefits will take a decade and more to be fully realized. On the other hand, according to the testimony of some of the original supporters of the New Directions changes, the projects would show demonstrable results more quickly than traditional development programs. 1/ Is the inability, or unwillingness, to judge the effectiveness of the New Directions overall merely a device for AID to avoid offending New Directions supporters in the agency or in Congress, or were the original partisans too sanguine about the speed at which these types of programs would have an impact on LDC society and in fostering growth with equity?

How would a shift away from New Directions programs be perceived by the interested parties? It could either be perceived as an admission of over-optimism and a move to a more realistic, or effective, foreign aid policy, or it could be perceived as capriciousness in carrying out a policy which evolved slowly.

2) How serious a problem for LDCs does the recurring costs issue present? Is the need for host governments to continue to finance and provide personnel support to ND programs an inherent fatal flaw? What is the economic impact

1/ See testimony of James Grant in U.S. Congress. House. Committee on International Relations. Mutual Development and Cooperation Act of 1973. Hearings. June 12, 1973. Washington, U.S. Govt. Print. Off., 1973. p. 488.

on recipient countries of being obliged to finance the long term costs of the New Directions projects? Is it even possible to "design into" New Directions projects, in health for example, income generating elements, or are some types of New Directions projects inherently resource drains?

3) What is AID's future role?

How much consideration should be given to proposals that AID become a teaching/learning and demonstration organization, rather than an organization designed to transfer resources? At the moment, the agency -- as opposed to its contractors -- is no longer funded and staffed to undertake a significant transfer of resources. On the other hand, Congress has not spoken at all on whether it was intended that AID become in effect a small agency testing and wholesaling American conceptions of technical assistance to foster growth, equity, or both.

4) What role should contractors play in the implementation of the American aid effort? Proposals outlined in Part VI of this study range from almost none to almost everything. The current situation involves greater and greater participation and responsibility by individuals who are not U.S. government employees -- a situation that has come about with little guidance from Congress.

5) What level of resources should AID invest in program evaluations? The Bennett inspired impact evaluation studies have provided fine models of usable policy evaluation. However, they did have a cost and, perhaps because of their novelty, received widespread support in their completion. Should they be expanded, and at what cost? Is there a point of diminishing returns in financing impact evaluations? How could analysis of project impact on local policies and on U.S. foreign policy best be integrated into the process?

I.A. HISTORY OF EARLIER U.S. DEVELOPMENT ASSISTANCE JUSTIFICATIONS FROM A CONGRESSIONAL PERSPECTIVE

From an historical perspective, it is possible to trace the existence of U.S. economic aid programs as far back as 1942.

In March of 1942 a subsidiary operation was created in the office of the Coordinator for Inter American affairs--the coordinator at that time being Nelson Rockefeller. The subsidiary, called the Institute of Inter-American Affairs (IIAA), was created to promote technical cooperation programs and projects in the areas of health, sanitation, and food supply. The projects were carried out on a cooperative basis through agencies set up within the appropriate ministries of the host countries.

While the programs were limited in scope and in funds, they were intended to alleviate food and nutrition problems in Latin America. The primary impetus for IIAA was to help further the U.S. war effort against the Axis powers.

The origin of a coherent, organized program of economic assistance aimed at development was the Act for International Development signed into law by President Truman in June 1950. However, between the start of the IIAA in 1942 and the Act for International Development in 1950, the United States undertook several massive grant aid programs to deal with the devastation and dislocation of World War II itself, to rebuild in the aftermath of the war, or to forestall gains by the Communists. These programs included Government and Relief in Occupied Areas (GARIOA), (approximately \$6.1 billion from 1943 to 1951); the Greek-Turkish aid program in 1947 and 1948 (\$650 million); Chinese aid in 1948 (\$400 million); the Marshall Plan (European Recovery Plan) of 1948-52 (\$12.9 billion in grants); the multilateral UNRRA--United Nations Relief and Rehabilitation

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Administration--in 1944-1947, (\$2.6 billion); and the Interim Aid Program of 1947-48 (\$597 million). In addition, other programs, such as the 1946 Special British Loan, Export-Import Bank activities, and parts of the Marshall Plan involved credits that were eventually to be repaid.

1. The Act for International Development, Point IV and the Technical Assistance Program

The Act for International Development authorized what was to become known as the Point IV program. That name was given to the program because the proposal for a program to assist the Less Developed Countries (LDCs) with their economic growth was the fourth major point in President Truman's January 1949 inaugural address. According to Truman, the American program for peace and freedom in the coming year was to emphasize four major courses of action: (1) support for the U.N., (2) construction of U.S. programs for world economic recovery, (3) the strengthening of freedom loving countries against aggression, and (4) embarking "on a bold new program for making the benefits of our scientific and industrial progress available for the improvement and growth of underdeveloped areas."

In his message to Congress of June 24, 1949, Truman recommended the enactment of a program of technical assistance for the less developed areas. Truman's message saw technical assistance as a necessary precursor for productive capital investment and, while the potential contributions of this capital by the World Bank and the Export-Import Bank were recognized, private sources of capital were expected to provide a major part of what was required. In his message, the President requested \$35 million in new funds to finance the proposed new assistance program, and also requested that changes be made in the charter of the Export-Import Bank to authorize the Bank to guarantee

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U.S. private capital invested abroad which would contribute to the economic development of the LDCs.

The justifications for the legislation requested were very broadly focused. The LDCs were described as having the common desire to create a firm economic base for the economic aspirations of their citizens. Without that base, they would be unable to meet the expectations that the modern world had aroused in their peoples. "If they are frustrated and disappointed they may turn to false doctrines which hold that the way of progress lies through tyranny." The message also referred to the existence of long term ties of trade and commerce with the LDCs, their importance to the restoration of Western European economic health, and finally, to the terms of article 56 of the U.N. Charter which obliged the United States to act by itself and with other nations "to promote higher standards of living, full employment, and conditions of economic and social development."

The Act for International Development was included as Title VI of the 1950 amendments to the Economic Cooperation Act (the act authorizing the Marshall Plan). According to Section 403 of the act for International Development,

It is declared to be the policy of the United States to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to raising standards of living, creating new sources of wealth, increasing productivity and expanding purchasing power.

The act also specifically authorized participation in OAS and U.N. multi-lateral technical assistance programs.

At this time, Congress clearly intended to establish only a program for technical assistance to LDCs. The Senate Foreign Relations Committee stated,

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Because some misunderstanding has arisen about the nature of this program, it should be made clear at the outset that it is neither an ECA (Marshall Plan) for the world nor in any sense a capital investment program. Because of the limited nature of the program, it will not require the expenditure of large sums of money. Its chief cost will be for the salaries and expenses of technicians and other personnel and not, for example, to purchase machinery, food, and raw materials.

[Sen. Rept. 1371, 81st Cong., 2nd Sess.]

However, because of the peculiar institutional structure created by the 1950 Act--a Technical Cooperation Administration was created while the Economic Cooperation Administration continued in existence in some areas--certain LDC's received technical assistance and also commodity import support and capital because there were ECA missions already established, while other LDCs, with "only" TCA missions, received only technical assistance. This confusion had its origins in actions taken by President Truman early in 1949.

On January 1, 1949, some 18 months before the start of the Korean War, the President gave the Economic Cooperation Administration--the agency responsible for carrying out the Marshall Plan in Europe--responsibility for administering economic aid in Korea. This marked a major shift in U.S. policy toward Korea from post World War II relief to economic development. Aid programs were also begun in Burma, Indochina and Thailand when the ECA suggested to Congress that funds left over from the mainland China program--and unusable as a result of the fall of the Nationalist Government--be expended in the "general area of China." [Committee Print, p. 62, H. Doc 116, June 11, 1959]

This conflict in intentions and organization was highlighted in the Joint Report of the Senate Foreign Relations Committee and Senate Armed Services Committee in the Mutual Security Act of 1951 where an elaborate six part division of labor between the Technical Cooperation Administration and Economic Cooperation Administration was set out. Following the presentation of this schema, the committees noted

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It is also the sense of the Joint Committee that substantial grant aid programs of the type administered by ECA in underdeveloped areas be regarded as temporary as contrasted with the longer range technical assistance type of programs... (emphasis added)
...In countries in which ECA missions are operating, and where programs are projected calling for sizeable commodity import programs, it should be the policy, in the absence of political considerations to the contrary, for the ECA to provide loan rather than grant aid in all cases where the financial condition and the borrowing capacity of the country to be assisted is such as to justify such loan aid.

The Act for International Development and the Point Four Program were incorporated basically unchanged into the Mutual Security Act (MSA) of 1951. The MSA was primarily concerned with the completion of Marshall Plan aid and the commencement of military aid to U.S. allies in Europe and Asia. Thus the primary focus of the overall legislation was on defense matters and Europe.

In the Near East and Africa, military aid was provided to Greece, Turkey and Iran. At the same time, technical assistance was provided to Liberia, Ethiopia, Libya, Eritrea, Egypt, Saudi Arabia, Lebanon, Iraq, Israel, and Iran.

In East Asia, Mutual Security Act military programs were undertaken in Indochina, Thailand, Indonesia, the Philippines, and Taiwan. Technical cooperation programs in this region were begun in India, Pakistan, Nepal, Afghanistan, Burma, Taiwan and Indochina.

ECA missions which were already in existence in certain less developed countries continued their independent existence when the Act for International Development was passed. This was the case in the Philippines, Korea, Taiwan, Indochina, Burma and Indonesia.

This continued to be the case even after the passage of the Mutual Security Act of 1951 which designated the Mutual Security Agency as the successor to the ECA.

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The Technical Cooperation Administration (TCA) remained in the Department of State, but under the direction of the Director for Mutual Security. The TCA was responsible for technical assistance and economic development in Latin America, Liberia, Libya, Ethiopia and Eritrea, India, Pakistan, Ceylon, Afghanistan, Nepal, Iran, Israel and the Arab countries.

In addition to its concern over administrative confusion during the first years of the Technical Cooperation program, Congress was also sensitive to the tendency of the program to initiate Commodity Import Programs (CIP). The Senate Foreign Relations Committee noted in its report on the Mutual Security Act of 1952 (S. Rept. 1490, 82nd Cong., 2nd sess.)

According to information presented to the Committee, the Administration plans during 1953 to spend \$44,252,000 for technicians and trainees and \$182,748,000 for supplies and equipment [mainly CIP]. Thus for every dollar spent for training, more than four dollars will be spent for supplies and equipment.

When Congress approved the act for International Development it did not fix a terminal date for the program largely because it was thought of as a long-range, comparatively low cost program. Emphasis was to be on assistance in the form of men, not materials.

Regardless of the controversies, the level of political and financial support for technical assistance remained very high from 1952 on. A clear example of the degree of the support and the reasons for the support appeared in President Eisenhower's message to Congress on technical assistance of June 23, 1954. He stated:

Our country's participation in technical cooperation programs must be vigorously advanced. Certain fundamentals are essential to their success. First, they should provide experts and know-how rather than large amounts of funds or goods, although they should not be allowed to fail due to lack of necessary teaching and demonstration equipment. Second, they should be tightly adjusted to the needs of the host countries. Third, they should be so administered as to reach as many people as possible, helping them raise their own standards of living and solve their own problems. Technical cooperation programs now before the Congress are based on these fundamentals. These programs are our most effective countermeasure to Soviet propaganda and the best method by which to create the political and social stability essential to lasting peace.

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While it is commonly believed that the Mutual Security Act of 1951, following the start of the Korean War, resulted in a major change in emphasis in U.S. foreign aid programs from economic aid to military aid, the differences in impact between Europe and the LDCs is striking. In Europe, the increase in military aid was accompanied by a decrease in economic aid. In the LDCs, however, the increase in military aid was paralleled by a growth in economic aid that was initially less dramatic, but considerably longer-lasting.

2. Development Assistance

As noted above, even before the passage of the Act for International Development, the Economic Cooperation Administration was providing commodity support along with technical assistance for some less developed countries in the Far East.

In the Mutual Security Act of 1951, a total of \$7.8 billion was proposed for all types of aid. Of that amount, \$1.8 billion was for economic aid, \$225 million of which was for ECA "Technical Assistance and Development" in underdeveloped areas. Of the remaining \$1.58 billion in economic aid, \$1.28 billion was for defense support and \$195 million for technical assistance worldwide. Other programs in that category dealt with humanitarian relief programs. As noted above, the ambivalence as to the goals and propriety of providing development assistance continued for the first two years of the program. Nevertheless, the U.S. economic aid program continued to provide development assistance to less developed countries. Chapter V of the House Foreign Affairs Committee's version of the Mutual Security Act of 1953 was entitled "Special Regional Economic Assistance," and included \$194 million for the Near East and Africa—mainly comprising \$140 million for the Arab states, Israel, and Iran. Another \$94 million in development assistance was set aside for

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India and Pakistan. Thus, as early as 1953, over \$288 million in development aid was being provided by the United States to a small number of less developed countries. At the risk of excessive quotation, excerpts from the justifications for Special Regional Economic Assistance for 1953 are reproduced below in order to show two things: the similarity between them and what was to follow later, and the concentration on development issues rather than geopolitics or the cold war.

1. Purpose

Special economic-aid programs are required to help the countries of the region to help themselves and to help one another in accelerating development possibilities where other funds are not available to enable basic development of the local resources to take place. They will be directed to fields where private or public investment funds are not otherwise available, such as projects for water storage, power, irrigation, transport, and the like. In addition, funds are required for general economic support to prevent privation and accompanying political unrest. Emphasis in the expenditure of such funds must be directed to benefit those countries which do not have sufficient other resources for their development.

2. Israel

Funds for economic assistance will be used to assist Israel to find homes and useful work for its people, and to provide for modest capital development for the purpose of helping Israel to move toward establishing a self-sustaining economy. The content of the program will be the same as it has been for the two previous years.

4. Other Countries

In addition to providing essential support for Egypt and Israel, provision is made for increasing the agricultural potential and transportation facilities for the other countries in the region. This would include the development and greater utilization of the water resources of the Nile, Euphrates, Jordan, Litani, and other rivers in terms of water storage, power, irrigation, and reclamation projects. It would entail road construction projects to transport materials, particularly agricultural commodities, and assist in the exploitation of the region's mineral resources. It will also make possible a significant contribution toward an integrated and coordinated air transport system.

B. INDIA AND PAKISTAN

1. Solution of mutual problems

Section 502 provides \$94,400,000 for India and Pakistan to promote the economic development of these countries and to help them maintain economic and political stability. The aid is to be provided on such terms and conditions as the President may specify "which shall include conditions and assurances to enable the countries * * * to make

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greater progress toward solving their mutual problems in cooperation with each other." The terms and conditions should be designed to make our aid effective for both countries and for the United States in the mutual interest of all three.

2. Emphasis in India on food production

...The economic and technical assistance program for India is primarily designed to increase food production by the introduction of more efficient methods of agriculture, better seed, fertilizer, and more water for irrigation. It is largely an extension and acceleration of the program already under way, and will constitute a relatively small, but vital, contribution to India's own total development program.

5. Goals and projects in Pakistan

...As in India, our effort will be concentrated in a village development program with the primary purpose of increasing food production. This will be done by teaching and showing the Pakistani farmer how he can increase the yield of his food crops through better seed, use of fertilizer, rotation of crops, and more efficient farming techniques. American technicians working jointly with greater numbers of Pakistani technicians will demonstrate the benefits to the farmer of modern agricultural practices.

In addition, fertilizer will be imported to increase the production of food while at the same time showing the farmer the value of fertilizer in increased food supply. United States aid is helping establish a factory in Pakistan to produce the fertilizer that is required by its agriculture, while in the field of health the program concentrates on measures to combat malaria, trachoma, and other debilitating diseases. The program will also support Pakistan's land reclamation program in the Indus Valley of west Pakistan and the Brahmaputra Valley of east Pakistan by furnishing the necessary engineering services and the sinking of tube wells.

In the recodification of U.S. foreign aid programs which took place in the 1954 Mutual Security Act, Title II was named Development Assistance. The total amount authorized, some \$299 million, was larger than the \$212 million that had been appropriated for the previous fiscal year. Together, development assistance and technical assistance totaled some \$433 million. When combined with the new \$150 million "Special Fund," the potential for economic aid funds to less developed countries in 1955 was over \$600 million.

The legislative statement in the new Development Assistance authorization (Title II) was extremely terse and uninformative and in fact contained

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no Declaration of Purpose as did Titles I (Mutual Defense Assistance) and III (Technical Assistance).

Section 201(a) merely stated for each area of the world given development assistance

There is hereby authorized to be appropriated to the president for the fiscal year 1955, not to exceed-

...for assistance designed to promote the economic development of..., and for other types of assistance designed to help maintain economic and political stability in the area;

Of the two authorizing committee reports, that of the Foreign Relations Committee made no separate breakdown or examination of "Development Assistance." While the House Foreign Affairs Committee Report (H. Rept. 1925, Part I) did address the purposes of the new title, the logic of the justification presented was almost circular.

Development assistance is made available in order to make possible or to accelerate projects or activities which basic United States interest requires to be undertaken and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried out at the rate required by United States foreign policy.

Development assistance is immediately directed toward goals which are not primarily military in character, whereas assistance under title I has as its first aim, and controlling justification, the attainment of military objectives.

In many key countries of the near East and South Asia, United States interests require the acceleration of economic development or the solution of other urgent economic problems. The United States, through technical cooperation, is providing the necessary ingredient of technical skills and know-how which in the long range will make most effective use of available resources. Development assistance is required, however, to solve specific and immediate economic problems which are beyond the physical and financial capacity of the countries themselves, either through use of their own resources, or through borrowing from existing public or private lending institutions.

2. India

The development assistance component of the fiscal year 1955, \$85,000,000, program will continue the fiscal year 1954 program with emphasis on nonagricultural development, including industry, transport (railroad rehabilitation), and some essential electric power for economic expansion at crucial points...

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...India's inadequate transport facilities constitute a serious bottleneck to development. Irregular deliveries often result in industrial shutdowns which in turn cause high costs and unemployment. The inadequacy of transport limits the ability of India to export bulk commodities such as coal, iron ore, and manganese. \$10 million is presently programed for continued assistance in the replacement and rehabilitation of Indian rolling stock during fiscal year 1955.

Another major phase of India's industrial development for which assistance has been requested is the proposed expansion of the Sindri fertilizer plant. This plant will increase India's industrial output and contribute to the increase of farm production by providing a permanent domestic source of fertilizer. An amount of \$4 million of development assistance is presently programed for assistance to this plant during fiscal year 1955.

3. Bolivia

Bolivia is the only Latin American country to which it is presently planned to provide development assistance.

The purpose of the program is to assist Bolivia in meeting its minimum essential food requirements and apart from the alleviation of an emergency, to enable Bolivia to make some initial progress in agricultural diversification so that dependence on tin earnings may be lessened. Since the Bolivian plan for agricultural diversification and economic expansion cannot be expected to begin to show appreciable results before the end of calendar year 1955, and Bolivia's income from minerals exports is expected to be even less than in 1953, further aid in the amount of \$9 million is proposed for fiscal year 1955. This will be used primarily for foodstuffs and also for the purchase of a limited amount of agricultural and industrial equipment and supplies required for the diversification program...

One of the most striking features of the committee report is the lack of reference to any outside threat as justification for these actions. The basic assumption appears to be that development assistance stood by itself and really needed no further justification.

The \$240 million authorized for development assistance by the 1956 Mutual Security Act in the Middle East countries was to be distributed to Egypt, Israel, Jordan, Lebanon, Libya, Ceylon, India, Nepal, and Indonesia. A special \$100 million "Special Authorization" was reserved for the Middle East and Africa. This special authorization was to be used, in the words of

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the Senate Foreign Relations Committee report, "to give the President authority and funds to take advantage of opportunities which may present themselves to contribute to and stability in the area."

The report indicated that the special authorization for the Middle East and Africa could be used for any of the following: defense support, development assistance, technical cooperation, or relief, rehabilitation, or resettlement of refugees.

Thus, as early as 1956, Congress had authorized the executive branch to use, practically interchangeably, the range of economic aid programs that were contained in the Mutual Security Act in order to "contribute to peace and stability" in the area.

a. The 1957 MIT Study for the Senate Special Committee to Study the Foreign Aid Program

In July of 1956, the Senate passed Resolution 285, creating the Special Committee to Study the Foreign Aid Program. Composed of all members of the Foreign Relations Committee, and the chairmen and ranking minority members of the Senate Armed Services and Appropriations Committees, the Special Committee was, among other things, to examine the proper objectives of U.S. foreign aid, the forms the aid should take, and the capability of the United States to extend aid. As part of the project, eleven separate contracts were let to academic and research institutions. One of these contracts was "The Objectives of U.S. Economic Assistance Programs," from the Center for International Studies of the Massachusetts Institute of Technology (MIT). The MIT study was written by a team headed by Max F. Milliken. Among those included on the team were Walt W. Rostow, Charles P. Kindleberger, Everett E. Hagan, and Lucian W. Pye.

The Milliken-Rostow study, published by the Committee in 1957, established the intellectual foundation which Congress and the Administration began to use in justifying U.S. development assistance policy. This justification, to a greater or lesser extent, is still used today.

The heart of the study is the second section in which the authors broadly define the American national interest and suggest a strategy which would best use our economic resources to advance the national interest. The proposed strategy is based upon the conviction that a policy of deterrence against the Soviet military threat is not of itself adequate to achieve the kind of world environment favorable to the United States.

In a subsection entitled "Beyond Deterrence" the MIT study states that containment requires more than a sustained demonstration that the western allies can and will prevent a Soviet takeover of border areas. Containment falls short in not recognizing that the urgent search of the newly emerging countries for solutions to their problems offers an opportunity for positive American action beyond containment.

In the view of the authors, the United States has an opportunity "in the next two or three decades" to resolve the cold war and to promote a more congenial external environment. This view is based upon what are called two facts and a proposition.

The first "fact" is that one third of the world's population has come to share a determination to overcome quickly centuries of political inertia and economic stagnation in order to "achieve a larger national dignity" and to create expanding economies and rising standards of living.

The second "fact" is that the United States is a country of "immense and fast increasing wealth," and hence in a position to deploy abroad substantial resources while continuing to raise its own standards of living.

The proposition presented is that a "comprehensive and sustained program of American economic assistance" designed to help less developed countries create the conditions for self-sustaining economic growth can, in the short run, materially reduce the danger of conflict by aggressive minor powers and can, "in say, two or three decades," result in an overwhelming preponderance of societies with a successful record of solving their problems without resort to coercion or violence. The establishment of these societies, the report states, gives the best promise of a favorable settlement of the Cold War and of a peaceful, progressive world environment.

The study then provided what it called the four supports for the proposition. These are 1) American economic assistance could lead to economic growth by removing "bottlenecks" to economic growth such as inadequate capital or knowhow. 2) American assistance can be designed to promote politically mature and stable societies. 3) If a majority of LDCs, especially those in Asia, demonstrated over a 10-to 20-year period that they were able progressively to resolve their internal problems without resort to totalitarian solutions, then the only rational option remaining to the Soviet Union would consist of a negotiated settlement with strong built-in safeguards against international violence, and 4) It was an essential American interest, even apart from the cold war, that the LDCs in Africa and Asia achieve economic growth within a democratic framework.

The third section of the study, "The Relation of Development Assistance to Aid Programs Having Other Purposes," makes, among others, the argument for a continuation of Defense Support and Security Supporting Assistance and ESF type of "economic" aid to be used to encourage political stability.

The final significant portion of the MIT study deals with "Aid Channels." While the primary purpose of the section is to examine the costs and benefits

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of using various bilateral and multilateral aid channels, the study sets out six criteria that should be weighed in deciding upon the most effective channels for economic aid, two of which relate directly to program rationales.

2) ...The channel chosen should create in the minds of the peoples of the world the most favorable image possible of United States motives and intentions. In any aid program it will occasionally be necessary, in accordance with the aid criteria established, to limit aid to a country to less than it feels it would effectively use and to reject certain projects or programs. Unless the aid channel has helped engender confidence in the recipient countries that decisions are made according to objective economic criteria, suspicion may arise that aid is being given for ulterior political or imperialistic reasons.

4) Channels should be so designed as to remove aid as far as possible from the context of East-West competition. Confidence should be established, for example, that United States economic aid for development is not being employed as a tactical weapon of foreign policy intended to buy allies or counter Soviet aid moves. An aid program will not achieve its objectives unless the recipients are convinced that their foreign policy is in no way compromised by it and that aid and economic advice are offered solely to help them promote development. (emphasis added)

While it is easy to ascribe significant policy changes to single documents when, in fact, there may have been many reasons for the change, it is clear that the MIT study set the foundations for a U.S. development policy that became evident with the 1959 Mutual Security Act. The basic principles in the study, that a comprehensive, sustained development aid program was in the U.S. interest, that U.S. aid could lead to economic growth, that U.S. aid to the LDCs could be a weapon against the Soviet Union, and finally, that aid should be given according to "objective economic criteria" and not be used for tactical foreign policy purposes, all began to appear in congressional documents.

While the MIT report rightly criticized the vagueness of President Truman's assertion of the U.S. stake in the less developed countries (see p. 12 of the Senate Print) in his Point IV address, the report itself did not go much beyond

this except to attempt to tie the U.S. stake it in a very indirect fashion to U.S.-Soviet competition. A major operational dilemma implicit in the study's argument arises from its claims that successful U.S. economic aid will be an effective weapon in moving the LDCs away from possible Soviet influence, but that the aid must be divorced from any possible connection with East-West conflicts. Thus, the Congress and aid bureaucracies were to sustain a program designed to meet a goal that was not directly to shape the program nor to be referred to in subsequent rationales for it.

b. The 1959 Modifications of Mutual Security Act Policy Language

In 1959, the Senate Foreign Relations Committee proposed changes in the Statement of Policy section of the Mutual Security Act which, while intended to "clarify misunderstandings as to the objectives of the Mutual Security Act," in fact marked a continuation of some of the existing justifications for development assistance. The Committee proposed that the statement of policy, which formerly concentrated almost entirely on the dangers of international communism, be amended to read

SEC. 2. STATEMENT OF POLICY.--(a) Through programs of assistance authorized by this Act and its predecessors, the United States has helped thwart Communist intimidation in many countries of the world, helped Europe recover from the wounds of World War II, supported defensive military preparations by nations alerted by Communist aggression, and has soundly begun to help peoples of economically underdeveloped areas to develop their resources and improve their living standards.

(b) Programs authorized by the Act continue to serve the following principal purposes:

(1) The Congress of the United States perceives the identity of interest which exists between the people of the United States and the peoples of other lands who are striving to establish and develop politically independent and economically viable units, to produce more goods and services and improve ways of living by methods which reflect popular will, and to establish responsible governments which cooperate with like-minded governments. The Congress declares it to be a primary objective and need of the United States to share these strivings by giving

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generously of our knowledge and substance to peoples willing to work energetically toward these ends.

In its report on the 1959 Mutual Security Act, the Foreign Relations Committee explained

The new points added to the statement of policy by the committee are designed primarily to indicate the congressional view that programs of economic and political development are worthwhile in themselves, irrespective of the Communist threat, and that these programs reflect a mutuality of interest between the United States and the other peoples concerned. Such a statement, in the committee's judgment, will be helpful in clearing up some of the misunderstanding which surrounds the objectives of the mutual security program, both at home and abroad. The purpose is to give added emphasis to the program's positive aspects which are now frequently confused with its negative, anti-Communist aspects.

The explanation, and the policy, were essentially consistent with those of the 1956 MIT study, and, going back even further, in President Truman's justification for the Point IV program: economic aid for development is not directly related to the communist threat, rather it is worthwhile in itself. What is increasingly ambiguous, however, is the degree to which directly dealing with the threat of communism was a program goal during this and subsequent years.

The changes proposed by the Foreign Relations Committee were accepted by Congress and became part of the Mutual Security Act in P.L. 86-108.

c. The Foreign Assistance Act of 1961 and Subsequent Amendments

In his inaugural address, President Kennedy pledged to help the poor countries of the world "not because the communists are doing it, but because it was right." The Foreign Assistance Act of 1961 marked a continuation and expansion of the self-justifying rationale for development assistance and, in fact, a decrease in the amount of space devoted to expressions of concern over communism and communist activities in the Third World.

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The internal arrangement of the Mutual Security Act was revised. The authority for development assistance was placed immediately after the Statement of Policy in Part I, while military aid was placed in Part II. As the excerpt below indicates, the new statement of policy drew heavily upon the thinking in the 1956 MIT study.

It is the sense of the Congress that peace depends on wider recognition of the dignity and interdependence of men, and survival of free institutions in the United States can best be achieved in a worldwide atmosphere of freedom.

To this end, the United States has in the past provided assistance to help strengthen the forces of freedom by aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible government.

The Congress declares it to be a primary necessity, opportunity, and responsibility of the United States, and consistent with its traditions and ideals, to renew the spirit which lay behind these past efforts, and to help make a historic demonstration that economic growth and political democracy can go hand-in-hand to the end that an enlarged community of free, stable, and self-reliant countries can reduce world tensions and insecurity.

Also, the Congress reaffirms its conviction that the peace of the world and the security of the United States are endangered as long as international communism continues to attempt to bring under Communist domination peoples now free and independent and to keep under domination peoples once free but now subject to such domination. It is, therefore, the policy of the United States to continue to make available to other free countries and peoples, upon request, assistance of such nature and in such amounts as the United States deems advisable and as may be effectively used by free countries and peoples to help them maintain their freedom . . .

In its report on S. 1983, the bill which eventually became the Foreign Assistance Act of 1961, the Senate Foreign Relations Committee noted that the overall policy statement was comparable to that already in existing law. However, some new points had been added, such as basing economic aid on longrange plans related to the social as well as the economic aspects of

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development. Another subsection declared the aid programs were to be made responsive to the self-help efforts of the people receiving such aid, with emphasis on long-range development assistance. The report further noted that, as a matter of policy, assistance would be provided in some areas for the purpose of promoting stability.

The continuity in policy which the Foreign Relations Committee cited was also noted by the House Foreign Affairs Committee, which pointed out in its report that the policy statement in H.R. 8400 (the House foreign aid bill) included an endorsement of the new emphasis on long-range development plans plus a reaffirmation of policy statements in previous legislation. Among the latter was a subsection declaring it to be the policy of the United States to make assistance available to free peoples as long as the threat of international communism continued. The policy statement adopted by the conference committee, which became the statement embodied in the act, combined the language of both House and Senate versions.

The nature of the justification for foreign aid was well-expressed by Senator Fulbright in his speech to the Senate on the Foreign Assistance Act of 1961. He said:

The compelling rationale of foreign aid is twofold. First, it purports to advance the security interests of the United States by helping to stabilize the emergent nations which in the decades ahead will almost certainly constitute the decisive weight in the world balance of power. Secondly, our aid aims to provide succor for the needy - the materially, and spiritually, deprived majority of mankind. There is a pulse of sympathy in our assistance, an instinct of compassion that, with few exceptions, has figured prominently in our foreign relations since the founding of the Republic.

In addition, the Senator maintained that:

This year's bill represents a worthy start toward a whole new concept of foreign aid -- a concept based on long-range development rather than piecemeal projects, on progress toward

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self-sustaining growth rather than short-range relief, on multilateral assistance by all of the prosperous free nations rather than unilateral American responsibility.

Finally, the Senator asserted that while the requirements for a successful aid program in the 1960s would hardly be comparable to those of the Marshall Plan, the necessity for assistance to the underdeveloped countries was rooted in the same basic considerations that motivated the plan. He quoted Senator Vandenberg who, upon reporting the Economic Cooperation Act of 1948 said, "This legislation, Mr. President, seeks peace and stability for free men in a free world. It seeks them by economic rather than by military means."

The 1961 act also provided for economic development and technical assistance grants. The law specifically stated that in countries in the earlier stages of economic development, programs for the development of education and human resources should be emphasized, and the furnishing of capital facilities for other purposes should be given a lower priority.

Section 621 of the Foreign Assistance Act of 1961 provided that the President was to exercise his functions under the act through such agency or officer of the U.S. Government as he might direct. This authority was delegated to the Secretary of State by Executive Order 10973 of November 3, 1961, which also directed the Secretary of State to establish an agency in the State Department to be known as the Agency for International Development. As a result of the Foreign Assistance Act and these executive branch directives, the basic organizational structure of the U.S. aid program was put in place for almost two decades.

The policy section of the Foreign Assistance Act of 1962 offered no additional justifications for the aid program. It did add amendments to

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the statements of policy contained in the 1961 act. Noteworthy among these, in view of the later adoption of the New Directions legislation, was a declaration to the effect that the highest practicable emphasis should be given to programs providing loans or loan guarantees for use by institutions and organizations which would in turn make low interest loans for the purchase of small farms or homes, for equipping or strengthening small businesses, for purchasing tools to carry on a trade, or for obtaining practical education in vocational and occupational skills. Such emphasis was also to be placed on programs of technical assistance and development which would assist in establishing a favorable environment for the foregoing programs. The policy declaration further proclaimed the sense of Congress that each assisted country should be encouraged to give "adequate recognition to such needs of the people" in the preparation of national development programs.

The Foreign Assistance Act of 1962 added a new title, Title VI, which authorized development loans for the Alliance for Progress. Presumably the objective was to upgrade assistance to Latin America by providing a separate allocation for this purpose. Assistance under this title was to be directed toward the development of human as well as economic resources. In addition, language added in 1962 authorized the President to assist in fostering measures of agrarian reform, including colonization of uninhabited areas and redistribution of the land, with a view to insuring its more equitable ownership.

A new subsection (f) was added in 1963 which provided that no assistance would be furnished to a project from the Development Loan Fund unless the President determined that the project would promote economic development

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in the borrowing country, taking into account the current human and material resources of that country and the relationship of the objectives of the project to the overall economic development of the country. The project had to specifically provide for "appropriate participation" by private enterprise.

In 1964 the Senate attempted to carry this philosophy one step further by requiring that the President study the feasibility of establishing tax and other incentives for private enterprise to help develop the economic resources and productive capacities of the less developed countries. The House bill did not contain a comparable provision, and the Senate receded in conference. But the House bill did contain a provision that it was the sense of Congress that the Agency for International Development should continue to encourage the use of engineering and professional services of U.S. firms or their affiliates in financing capital projects authorized under the act, and this provision was incorporated in the Foreign Assistance Act of 1964, although not in the policy segment. While indicating that Congress was trying to bring private resources to bear on the development problem, these provisions did not affect the underlying rationale for the foreign aid program. But an insight into congressional thinking as to the purpose of the aid program is provided in the following comment from the Senate Foreign Relations Committee in its report on the 1964 bill:

It is more difficult to see whether public understanding of the aid program is growing significantly with the passage of time. To some extent, the lack of understanding reflects a failure to perceive that the aid program is a multipurpose instrument of foreign policy, not a single doctrinal approach to the problems of the developing world. The criticism that foreign aid will not succeed until there is agreement on what the program seeks to achieve is not realistic. Clearly, the immediate objective of foreign aid in Africa, for example, is by and large quite different from that in Latin America, and its immediate objective there is different from that in south-east Asia. There is, to be sure, the broad underlying purpose of encouraging the development of a stable world order, within

which independent societies may freely pursue policies deemed consistent with their own highest interests. The foreign aid program should contribute to this purpose by helping transitional societies along the path toward stronger economies and institutions; by helping others to preserve their independence; by helping primitive societies to learn and deal with contemporary problems and opportunities.

Senator Morse entered a separate report altogether on the Foreign Assistance Act of 1964, in which he made some trenchant criticisms of the program. He said that aid must serve the interests of the United States, and that he believed in "strings" on aid. Congress could not spend money for the general welfare of other people, no matter how deserving, he said. Hence, foreign aid could not serve a purely humanitarian purpose, devoid of self-interest for the United States. He questioned whether the program, as it operated, really served U.S. self-interest. He did not believe that aid intended for security reasons, or, as he put it, "for reasons of political intrigue," served our long-run interests. He said that aid should be primarily developmental and for specific purposes, with short-run considerations very secondary, instead of the other way around. It appeared that, in Senator Morse's view, aid could not be justified in both security terms and developmental terms at the same time, at least not if one were thinking in long-range terms.

In 1966 three criteria were added that were to be taken into account in making development loans. These included: first, the recipient's progress toward the rule of law, freedom of expression, recognition of the importance of individual initiative and private enterprise; second, the degree to which the recipient was taking steps to improve the climate for private investment; and third, whether or not the activity to be financed would contribute to the achievement of self-sustaining growth. These criteria, rather than instituting any new rationale for development assistance, could be said to

illustrate an aim not often voiced about the aid program; namely fostering the development of societies broadly similar to the American model.

d. New Directions Precursors in the Major Policy Revisions of the Foreign Assistance Act of 1967

In 1967, for the first time in a half-dozen years, Congress made a major restatement of the policy underlying the foreign aid program and added a new section (sec. 207) on the purposes of development assistance. Section 102 of the Foreign Assistance Act of 1961 was completely amended and included the following language:

The Congress declares that the freedom, security, and prosperity of the United States are best sustained in a community of free, secure, and prospering nations. In particular, the Congress recognizes the threat to world peace posed by aggression and subversion wherever they occur, and that ignorance, want, and despair breed the extremism and violence which lead to aggression and subversion. The Congress declares therefore that it is not only expressive of our sense of freedom, justice, and compassion but also important to our national security that the United States, through private as well as public efforts, assist the people of less developed countries in their efforts to acquire the knowledge and resources essential for development and to build the economic, political, and social institutions which will meet their aspirations for a better life, with freedom, and in peace.

Congress further declared that to achieve the objectives of the Act, programs authorized by the Act should be carried out in accordance with the following principles:

First, development is primarily the responsibility of the people of the less developed countries themselves. Assistance from the United States shall be used in support of, rather than substitution for, the self-help efforts that are essential to successful development programs, and shall be concentrated in those countries that take positive steps to help themselves. Maximum effort shall be made, in the administration of this Act, to stimulate the involvement of the people in the development process through the encouragement of democratic participation in private and local government activities and institution-building appropriate to the requirements of recipient nations.

* * * * *

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Fourth, the first objects of assistance shall be to support the efforts of less developed countries to meet the fundamental needs of their peoples for sufficient food, good health, home ownership and decent housing, and the opportunity to gain the basic knowledge and skills required to make their own way forward to a brighter future. In supporting these objectives, particular emphasis shall be placed on utilization of resources for food production and voluntary family planning.

The two passages quoted above foreshadow the later New Directions policies. Similarly, section 207, on the purposes of development assistance, contained the following provisions:

In furnishing development assistance under this chapter the President shall place appropriate emphasis on -

(a) assuring maximum participation in the task of economic development by the people of less developed countries through the encouragement of strong economic, political, and social institutions needed for a progressive democratic society;

(b) programs directed at enabling a country to meet the food needs of its people from its own resources, including the furnishing of technical knowledge and of resources necessary to increase agricultural productivity; assistance for improved storage, transportation, marketing, and credit facilities (including provision of foreign currency loans to small farmers), cooperatives, water conservation programs, and adaptive research programs; and technological advice;

(c) assisting recipient countries in their efforts to meet increasing needs for trained manpower in their development efforts by improving education planning and research, training teachers and administrators, developing and constructing educational institutions, and using modern educational technology;

(d) developing programs to combat malnutrition; to control and eradicate disease, to clear slums, and to provide adequate and safe drinking water, adequate sewage disposal systems, overall health education, maternal and child care, and voluntary family planning services which shall, where feasible, be included as part of programs of maternal and child care, and other public health assistance;

Another section of the Foreign Assistance Act of 1967, section 208, also seemed to envision New Directions policies. In defining self-help

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criteria it stipulated that the President should take into account the extent to which the receiving country was taking measures that might be appropriate to its needs and capabilities for increasing food production and improving the means for storage and distribution of food. Additional criteria included the extent to which the government of such a country was increasing the role of the people in the development process, the extent to which its expenditures were allocated to key developmental areas, including agriculture, health, and education, and the extent to which it was making economic and social reforms, such as tax collection improvements and changes in land tenure.

The thoroughgoing restatement of 1967 was not repeated in the 1968 or 1969 Foreign Assistance Acts. The foreign aid bills of the early 1970s became focal points for the legislative battles to restrict and terminate U.S. involvement in the Southeast Asia war.

e. The Peterson Report

The report of the task force headed by Rudolph A. Peterson, which had been appointed by President Nixon in 1969 to make a comprehensive review of U.S. aid programs, was published in 1970. This "Peterson Report" contained a number of recommendations, on foreign aid policy and programs. Among the policy recommendations were the following: 1) It should be a cardinal aim of U.S. foreign policy to help build an equitable economic and political order in which the world's people, governments, and other institutions could effectively share resources and knowledge. 2) The United States should continue to provide its fair share of resources to those countries showing a determination to advance. 3) U.S. aid policies should be redesigned so that developing countries could establish their

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own priorities and receive assistance in proportion to their own self-help efforts, and so that international lending institutions become the main channel for development assistance. 4) U.S. development policies should seek to widen the use of private initiative, skills and resources in the developing countries. 5) U.S. policy should also seek popular participation and dispersion of the benefits of development.

The Peterson Report's programmatic recommendations included the following, among others: 1) A U.S. international development bank should be established to make capital and technical assistance loans, and to administer selected programs of special interest to the United States. 3) A U.S. International Development Institute should also be established, which would be concerned with research, training, population programs, civic and social development, and the application of science and technology to resources and processes vital to developing nations. 4) The establishment of a U.S. International Development Council, whose purpose would be to assure that development receives greater emphasis in U.S. trade, investment, financial and similar policies.

The Nixon Administration proposed legislation based on the Peterson Report. One of the bills it submitted, the proposed International Development and Humanitarian Assistance Act of 1971, contained a number of policy recommendations, some of which reflected the ideas and to some degree the language of the Peterson Report. But this bill never became law. Neither did a companion bill, which was proposed as a separate International Security Assistance Act. The Foreign Assistance Act of 1971, finally passed in 1972, contained no modification of earlier policy statements relating to development assistance.

The proposed foreign aid authorization for fiscal 1973, H.R. 16029, died in conference in October of 1972. It was the third time in four years that Congress failed to complete action on either a foreign aid authorization or appropriation. The bill covered military assistance and related programs, however, and did not authorize appropriations for development assistance. Most of its policy provisions reflected Congress' desire to assert its powers in foreign affairs, which had been stimulated by the Vietnam experience. As the result of the failure to work out a compromise on H.R. 16029, Congress passed a continuing resolution authorizing foreign aid funding through the end of February, 1973.

Although the New Directions legislation was not adopted until 1973, earlier legislation anticipated its emphasis on food assistance, health, and education. But such earlier legislation did not assign quite the same priority to these areas. More significantly, perhaps, the economic rationale underlying development assistance, namely the building of an infrastructure base through imports of capital, continued to be dominant until the New Directions policy came into force. In addition, earlier legislation did not target the poor in the manner that was attempted after 1973. There was recognition of the plight of the poor and of the need for U.S. aid to reach them, but this need was not assigned top priority until concentration of the aid effort on capital intensive activities was abandoned in favor of concentration on labor-intensive industries, agriculture, and food production.

Self-help was continually cited as a requirement for U.S. development aid, and countries taking effective steps in that direction were preferred recipients of U.S. assistance. Those countries, and others in what were known as forward defense areas, might thus be said to have

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been targeted for our aid. Also, from time to time specific groups such as cooperatives were singled out for assistance, but there does not appear to have been much consistency in the way this was done.

I. B. BRIEF REVIEW OF THE THESIS THAT DEVELOPMENT
IN GENERAL HAD FAILED TO BENEFIT THE POOR

Since the end of World War II a series of different approaches or strategies for development occupied development economists. Among these were capital accumulation; the bottleneck theory, based on the availability of foreign exchange; industrial growth, either to substitute for imports or to be sold in export markets; rural development; and population control. More recently, in the 1970s, export oriented growth, and redistribution with growth, or growth with equity strategies have been the focus of attention.

The philosophical origins of the New Directions legislation stem largely from two basic sources: a perception on the part of some observers that the traditional economic growth strategies had not adequately met the basic needs of the poor in the developing countries; and evidence from a select number of countries, predominantly in East Asia, that basic needs could be met through alternative development approaches.

Until the early 1970s, the primary development approaches emphasized economic growth as the key to overall development. According to this set of theories, the more rapid economic growth, the faster the overall development process. Furthermore, it was believed that the most effective means of maximizing economic development was through capital-intensive industrial production in urban centers. Once this growth process was generated and sustained, the benefits from it would disperse, or "trickle down," throughout the economy. In time, the rural poor would be beneficiaries of the development process.

In important respects, the results of the traditional development approach in the LDCs proved positive. Economic growth rates among the LDCs as a group had been quite impressive during the 1950s and 1960s. During the

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1960s the developing countries averaged a 5.5 percent annual increase in Gross National Product and an annual per capita GNP increase of 3.2 percent. This rate of growth was greater than that experienced by the developed countries at comparable stages of their economic development. Several developing countries had experienced annual growth rates of 10 percent or even higher. Some low-income agricultural societies had been rapidly transformed into countries with significant industrial sectors. Manufactured goods exports increased rapidly and, by the early 1970s, accounted for 23 percent of LDC total exports. 1/

Yet, accompanying this impressive economic growth was evidence that the poorest inhabitants of many LDCs had been excluded from the development process, and in some cases, actually had been adversely affected by the high growth. The consensus of a number of studies which appeared in the late 1960s and early 1970s was that in many instances the gains of the trickle down development approach had so far failed to trickle down. The International Labor Organization (ILO) found that despite the significant increases in per capita incomes, unemployment in various developing countries was also increasing during the 1960s. 2/ Studies by Albert Fishlow 3/, and Irma Adelman and Cynthia T. Morris 4/ showed that not only had there been a relative

1/ James Grant. [Testimony]. In U.S. Congress. House. Committee on Foreign Affairs. Mutual Development and Cooperation Act of 1973. Hearings, 93d Congress, 1st session on H.R. 7484, H.R. 8258 and H.R. 8297. June 12, 1973. Washington. U.S. Govt. Print. Off. 1973. p. 474.

2/ International Labor Organization. Towards full employment: a program for Columbia. Geneva, International Labor Organization, 1970.

3/ Fishlow, Albert. Brazilian size distribution of income. American economic review, v. 62, May 1972: 391-402.

4/ Adelman, Irma, and C.T. Morris. Economic growth and social equity in developing countries. Stanford, California, Stanford University Press, 1973.

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decline in the living standards of the lowest income stratum in the developing countries, but also an absolute decline in income in some circumstances during the 1960s. Other, later, studies maintained that malnourishment 5/ and illiteracy 6/ had increased among the poor in the LDCs.

According to one witness testifying before Congress in support of the New Directions legislative proposals, the bottom two-thirds of the population within the developing world still had no meaningful access to health facilities. In the rural areas, the majority of the people were still illiterate. Foreign assistance, in the form of large capital transfers and commercial loans, had often only exacerbated development problems by helping to engender suffocating debt burdens in the developing world. In addition, significant and steady increases in population and rural-to-urban migration largely negated the beneficial effects that did result from economic growth. 7/

Some people believed that another reappraisal of accepted development theory and practice was needed. Much of the basis for a new theory of development was derived from the experiences in a number of low-income countries whose development strategies during the 1960s appeared to have been quite effective in meeting the basic needs of the poorest inhabitants. The countries included South Korea, Taiwan, Hong Kong, and Singapore. The experience in these countries seemed to provide evidence that a development

5/ Teutlinger, Shlomo, and Marcelo Selowsky. Malnutrition and poverty: magnitude and policy options. Baltimore, Published for the World Bank by Johns Hopkins University Press, 1976.

6/ International Bank for Reconstruction and Development. Education sector strategy paper. Washington, World Bank, 1974.

7/ James Grant. [Testimony] In U.S. Congress. House. Committee on Foreign Affairs. Mutual Development and Cooperation Act of 1973. Hearings, 93d Congress, 1st session on H.R. 7484, H.R. 8297. June 12, 1973. Washington. U.S. Govt. Print. Off. 1973. p. 474.

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strategy could simultaneously create jobs, decrease income disparities, increase access to health and education facilities, improve nutrition, and increase per capita income. It was thought that given the right circumstances, the poor could be productive and efficient and could contribute to the development process. The approach to development in all these countries was similar. Emphasis was placed on maximizing employment via labor-intensive economic activities and insuring access of the poor, usually small, rural producers to the means of production, the market, the financial system, and technical knowledge. 8/ These countries become a model for the development of New Directions Concepts.

8/ See also, Edgar Owens. [Testimony] In U.S. Congress. House. Committee on Foreign Affairs. Mutual Development and Cooperation Act of 1973. H.R. 8258 and H.R. 8297. June 12, 1973. Washington. U.S. Govt. Print. Off. 1973. p. 497-507.

I. C. ORIGINS AND JUSTIFICATION IN CONGRESS OF THE
NEED FOR THE NEW DIRECTIONS LEGISLATION

When the Foreign Assistance Act of 1973 was sent to Congress in early May 1973, the bill was essentially a continuation of existing law. No policy changes were recommended and, as noted above, no significant policy changes had been proposed the previous year. The year before, one aid authorization bill had been defeated in the Senate and the authorization bill that did pass died in conference at the adjournment of the 92nd Congress.

When administration witnesses began their testimony on May 15, 1973, they directed their remarks to supporting the administration proposal which recommended no major change. The Deputy Secretary and Undersecretary of State and the Administrator of the Agency for International Development all supported the portions of the bill dealing with development assistance as those portions were submitted.

Simultaneously, it was reported in the press, that several members of the House Foreign Affairs Committee and senior committee staff were meeting to develop what was to become the New Directions approach. As the Foreign Affairs Committee hearings on the administration proposal continued, there was some public discussion during the hearings with administration witnesses about the intention of this group of members to offer changes. Any discussions that took place between administration witnesses and New Directions proponents in Congress did not appear in the public record.

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On June 5, when Secretary of State William Rogers testified, the proposed New Directions changes had been introduced by 26 members of the Foreign Affairs Committee in H.R. 8258, the administration had not publicly responded to them.

But, by June 6, the testimony of the AID administrators for Latin America and Africa was couched in terms of the new functional budget categories, and in terms of how the existing programs were designed to reach to poor.

As Samuel C. Adams, AID Assistant Administrator for Africa stated

Mr. Chairman and members of the Committee, I would like to cite for you the instances of activities in our programs which are designed to increase the well being of poor people in Africa. I cite these as illustrations of the kind of things we are trying to do to help Africans overcome the obstacles to achieving a higher quality of life in the areas of food and nutrition, population and health, and in development of human resources.

The first person to deal directly in the hearings with the proposed New Directions changes was Edward Mason, professor emeritus of Harvard University. Professor Mason was the 25th person to testify on the 1973 foreign aid bill. His brief testimony does not appear until page 457 of the hearings. The first person to deal extensively with the proposed New Directions changes was James P. Grant, then president of the Overseas Development Council. Grant appeared two witnesses after Professor Mason.

Grant's testimony is the clearest, most extensive, and most detailed public explanation of the New Directions changes and the reasons for them. It was also

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the only in-depth presentation of the New Directions policies in the Foreign Affairs Committee hearings. Out of a total of 670 pages of hearings, only some 50 pages dealt directly with the New Directions. The hearings however, were not printed until after the legislation was considered on the floor.

What the House was obliged to rely upon in voting for the New Directions changes was the Committee Report (H. Rept. 93-388). The first 30 pages of the report--released one week before floor action began -- did provide a good capsule description of the intended changes.

The bill itself was finally passed on July 26, 1973 by 5 votes, 188-183. Of the 29 floor amendments proposed, none was specifically related to the New Directions policy changes, though Representative H.R. Gross of Iowa did offer five amendments cutting the amounts authorized in the new functional budget categories.

In the Senate, hearings on the 1973 aid bill did not begin until the House Foreign Affairs Committee hearings had been concluded. Unlike the Foreign Affairs Committee, the Foreign Relations Committee had the New Directions proposals in relatively final form from the outset of the hearings.

Father Theodore Hesburgh, chairman of the Board of Directors of the Overseas Development Council and President of Notre Dame University, played a role before the Senate Committee similar to that of James Grant before the House Committee. By that time, there seemed to be fairly widespread support on the committee for changes. In the record of the Senate hearings, there was even less explanation of the reasons for the changes than before the Foreign Affairs Committee--some comments by AID Administrator Hannah and Father Hesburgh's brief testimony. Part of this was due to the pronounced opposition of Foreign Relations Committee Chairman Fulbright to foreign aid generally; a significant

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amount of the public record contains material and testimony not favorable to foreign aid of any type.

Senator George Aiken of Vermont, the ranking minority member of the committee set out his understanding of the purposes of the changes in giving the reasons he cosponsored the bill.

Apparently, a majority of this committee prefers to cosponsor this bill. The reason that I agreed to co-sponsor it was that it was designed to help people rather than to help and control the governments of these smaller countries and that it recommends using private organizations to the fullest extent that they can be used effectively. It provides that countries would set forth their own needs for the poorer people of their countries and make their own plans. Of course that does not obligate us to approve of all their plans, but it really helps the poorest people and not, as we found some few years ago, instead of helping the poorest people helping some of the wealthiest people of some of these smaller countries. There is no question but what it would be helpful to certain phases of American industry,

although that is not the primary purpose. However, if supplies are needed I assume American industry would provide them. (p. 141 Senate Hearings on Foreign Economic Assistance, 1973)

The Foreign Relations Committee reported out its version of the New Directions changes on August 2, 1973. The Foreign Relations Committee report, while not as detailed as that of the House Foreign Affairs Committee, did set out the New Directions justifications clearly. The committee reported out the changes in spite of the strong opposition of three senior members of the Committee: Chairman Fulbright and Senators Mansfield and Church.

On the Senate floor, Hubert Humphrey, at the time the most junior member of the majority on the Committee, was bill manager. The only real debate over any of the New Directions provisions that took place during the entire floor consideration of the 1973 bill arose in connection with Senator

Fulbright's amendment to substitute a continuation of the old budget categories --and reduction of \$217 million in the overall program--for the New Directions changes. The debate on the Fulbright amendment did not provide any additional guidance as to the intentions of the Senate in making the New Directions changes beyond what appeared in the Foreign Relations Committee report. The debate, and the 31 to 64 vote, did however clearly indicate strong support for the changes.

If one concentrates on the public record, it seems clear that the New Directions changes were not thoroughly justified to Congress. However, certain members of the House Foreign Affairs Committee did have a good grasp of the basic intentions of the legislation. Going beyond this conclusion, it appears from the debate that most members of Congress, especially in the House, had not given much systematic consideration to the practical ramifications of the change when they voted for the bill.

A persuasive graduate thesis on the New Directions changes provides a different perspective on the origins of the legislation. 1/ While this paper does an excellent job of filling in the historical record, it does not present any data that would significantly modify the conclusion that the justifications for the changes in the public record were superficial or that much of the Congress, especially the House, was unaware of the ramifications of the changes when the 1973 authorization was passed.

1/ Berg, Ellen Z. The 1973 Legislative Reorientation of the United States Foreign Assistance Policy: The Content and Context of a Change. M.A. Thesis, The George Washington University. 1976. Unpublished.

The author places the locus of the New Directions changes in three places: to be sure, Congress; but more importantly, AID and the Overseas Development Council (ODC). ^{2/}

In brief, as early as 1971, internal studies at AID had recommended a functional division of the foreign aid budget categories. A 1972 AID task force Report also recommended a functional approach. Neither of these exercises mentioned an emphasis on reaching the poor or on participation of the poor as a primary program goal.

In the fall of 1972, AID Administrator John Hannah had two bills prepared: one a continuation of the existing budget mechanism, the other with functional budget categories. The draft functional bill was informally presented to the two authorizing and appropriating committees at the same time it was circulated inside the executive branch. Because the new format was not well received inside the executive branch -- though the committees reportedly did like it -- the legislation which was introduced in May 1973 followed the then existing format.

In early April, a group of congressmen -- 15 Democrats and one Republican -- on the House Foreign Affairs Committee sent a letter to President Nixon urging him to reform the aid program on the basis of six principles:

1. Bilateral foreign aid should concentrate on sharing American technical expertise, farm commodities, and industrial goods.
2. Future U.S. bilateral support for development should concentrate on functional sectors such as food production and rural development; population, health, and nutrition; education, manpower, and public administration.
3. Development planning must be the responsibility of each sovereign country -- a responsibility which many less developed countries were increasingly capable of discharging themselves.

^{2/} Ibid., p. 164-172.

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4. U.S. bilateral support should be provided only for undertakings submitted by the host country which involved the masses of the people who were trying to help themselves.

5. U.S. development efforts should be channeled increasingly through the private sector.

6. A single agency of the U.S. government should be given the responsibility for coordinating all U.S. development-related inputs.

Berg describes a series of breakfast meetings was hosted April and May by Representatives Clement Zablocki of Wisconsin and Donald Fraser of Minnesota. A group of 7-10 congressmen and staff members met five or six times to discuss the outlines and content of a bill. James Howe of ODC and Edgar Owens of AID attended some of these meetings. In addition, Charles Paolillo, then on the ODC staff, but later to join the Foreign Affairs Committee staff, was enlisted to write the legislative language. The group met to write several drafts over the next few weeks. During this phase the ODC served as an intermediary between the Foreign Affairs Committee, AID, and other parts of the executive branch. When the bill was introduced on May 30, it reflected the six principles in the April 10 letter to the President. As noted above, James Grant and Father Hesburgh testified in support of the New Directions measures before the relevant committees.

Two other observations of Berg deserve comment here because of their relationship to Part III of this study.

First, she concludes that there was a true divergence among the main actors as to the primary concern of the legislation. AID personnel described it as the shift to the functional budget structure. On the other hand congressional and ODC personnel described the most important change as the emphasis on reaching the poor through a strategy of participation. To support this view, she quotes scepticism of an AID official about the participation strategy as well as the observations of a congressional staff member who was

very active in the process, that the functional budget categories, the limitations on large construction projects, and the selfhelp collaborative style all obscured the central point: the participation strategy. This Congressional staff member claimed that, in his opinion, the Foreign Affairs Committee and Congress, in limiting large industrial and construction projects, went beyond what the participation strategy demanded. 3/

Second, Berg suggests that different elements of the New Directions strategy came from different sets of participants: the functional budget category approach originated with AID, Congress added the idea of concentrating on the poor rural majority, and the participation strategy came from several people, most prominently Edgar Owens at AID and those at ODC. 4/

3/ Ibid., p. 168-169.

4/ Ibid., p. 170-176.

I.D. CURRENT CRITIQUES OF EMPIRICAL EVIDENCE PRESENTED IN 1973

One of the basic assumptions behind the proposals of the New Directions policies in 1973 was that the development process had not worked for the majority of people in the LDCs. Recent research has cast a different light on this issue. David Morawetz, in Twenty-Five Years of Economic Development 1/, has challenged the thesis that the third world was a great bottomless pit into which the rich countries kept throwing dollars that were used and wasted by corrupt local elites.

Morawetz fairly convincingly demonstrated that there was spectacular growth of GNP in the LDCs in the last 25 years. Table 1 presents Morawetz' findings concerning growth.

Table 1: GNP per Capita and Its Annual Growth Rate, by Region, 1950-75 2/

Region	Population, 1975 (millions) (1)	1974 U.S. dollars		Annual growth rate, 1950-75 (percent) (4)
		1950 (2)	1975 (3)	
South Asia	830	85	132	1.7
Africa	384	170	308	2.4
Latin America	304	495	944	2.6
East Asia	312	130	341	3.9
China, People's Republic of	820	113	320	4.2
Middle East	81	460	1,660	5.2
Developing countries	2,732	160	375	3.4
Developing countries excluding China	1,912	187	400	3.0
Developed countries	654	2,378	5,238	3.2

a. All OECD countries except: Greece, Portugal, Spain, and Turkey.
Sources: Columns 1 and 3: data tapes of World Bank Atlas (1977), Column 2: estimated by applying growth rate of GDP per capita, 1950-60 (World Bank, World Tables, 1976), to figures for 1960 GNP per capita (Atlas tapes). Column 4: Computed from columns 2 and 3.

1/ Morawetz, David. Twenty-Five Years of Economic Development. Washington, D.C., World Bank, 1977.

2/ Ibid., p. 13

This table reveals that the GNP per capita in the LDCs increased 3.4 percent per year over the last 25 years. This was faster than today's developed countries grew during their development, faster than the LDCs had ever grown before, and faster than anyone expected them to grow.

The growth rates differ by region. The Middle East, East Asia, Latin America, and Africa all had per capita GNP growth of 2.4 percent per annum or higher. Unfortunately, South Asia, with a population of 830 million and a per capita annual income of only \$132, only grew at a rate of 1.7 percent a year. This is where the really difficult massive poverty problems continue to exist.

Morawetz' most striking findings, however, concern areas other than simple growth of GNP. He finds that by any measure, overall development over the last 25 years appears to have been successful.

The amount of food available per capita has kept pace with a doubling population in the LDCs since World War II. Life expectancy in the LDCs is now 50 years. The countries of Western Europe only achieved this level of life expectancy in 1900, after a century of growth and development.

Infant mortality rates in the LDCs have dropped precipitously. Many diseases have been virtually eliminated. The percentage of adults who are literate in the LDCs now stands at 50 percent, compared to 40 percent literacy in 1960. Between 1950 and 1960, LDC primary school enrollments trebled and secondary and tertiary enrollments increased sixfold.

Morawetz presents data for unemployment rates in those LDCs where reasonably reliable data are available: nine countries in Latin America, three countries in East Asia, and one nation each in Africa and the Middle East. These data show no clear trend toward a worsening of open unemployment.

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In many countries, the share of the GNP received by the poor stayed constant or increased. This means the incomes of the poor were increasing as rapidly as the rich and as rapidly as the average. Countries which fell into this category were Iran, Israel, Korea, Taiwan, Singapore, Sri Lanka, Costa Rica, El Salvador, and possibly Colombia.

Another group of countries saw the share of the poorest group decline. This meant the per capita incomes of the poor were not growing as rapidly as the incomes of the rich or as rapidly as the average. This group of countries included Argentina, Brazil, India, Mexico, Panama, Peru, and the Philippines.

There appears to be no relationship between rate of growth of GNP and the degree of income inequality. Some fast growers achieved wide income distribution; others did not. The same was true for the slow growth countries as well.

Morawetz examines the issue of an absolute decline in the incomes of the poor. "Are there countries in which the poor have experienced an absolute worsening over time? Unfortunately, the available data do not allow an unambiguous answer to this question." 3/

Does economic growth meet basic needs? Morawetz presents data to show that the higher per capita income LDCs better met basic needs than did lower per capita income countries -- as would be expected. However, Morawetz found weak correlation between improvement in basic needs indices and growth in per capita income over the decade 1960-1970. 4/ Thus, the data are ambiguous but tend to cast some doubt on the hypothesis that economic growth alone will meet basic needs.

3/ Morawetz, David. Twenty-Five Years of Economic Development. In Finance and Development, v. 14 September 1977. p. 3

4/ Morawetz, David. Twenty-Five Years of Economic Development, pp. 54-58.

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New Directions policies grew out of the belief that growth had failed to benefit the poor. This is true in the sense that growth in Taiwan, Korea, Brazil, and Mexico have failed to eliminate poverty in Senegal and India. However, if one looks at the data, most of the poorest people are concentrated in a very few countries -- mostly in South Asia. Eighty percent of the people living in absolute poverty in the world live in 40 countries with per capita incomes of less than \$300. India alone accounts for 37 percent of the people living in absolute poverty.

Table II: The Distribution of Poverty Among Country Groups

<u>Country Group</u> (1977 Per Capita GNP)	<u>1977</u> <u>Population</u> (millions)	<u>Poor</u>	<u>Poor</u> <u>Population</u> (millions)	<u>Percent of</u> <u>Total Poor</u>	<u>Cumulative</u> <u>Percent of</u> <u>Total Poor</u>
Less than \$150 (14 countries)	219.1	62	135.8	17.4	17.4
India - \$150	631.7	46	290.6	37.2	54.6
\$150 - \$300 (24 countries)	401.3	51	203.6	26.1	80.7
\$301 - \$450 (13 countries)	245.9	31	76.6	9.8	90.5
\$451 - \$1,200 (28 countries)	326.4	15	49.0	6.2	96.7
\$1,201 - \$4,800 (22 countries)	208.5	12	24.9	3.2	99.9
Total (102 countries)	2,032.9	38	780.6	99.9	

Country groupings are based on 1977 per capita GNP figures from the World Development Report 1979, or in a few cases from the 1979 World Bank Atlas. Population figures are from the 1979 World Bank Atlas.

Source: Crosswell, Michael J. "Growth, Poverty Alleviation, and Foreign Assistance."

By and large, the poorest LDCs grew more slowly during the last 30 years than did the middle income LDCs. Per capita incomes in low income LDCs (per capita incomes of less than \$300) grew 1.5 percent per annum from 1960 to 1970 and only .9 percent from 1970 to 1977. Per capita incomes in middle income LDCs, by contrast, increased 3.7 percent per annum from 1960 to 1970 and 3.5 percent per annum from 1970 to 1977.

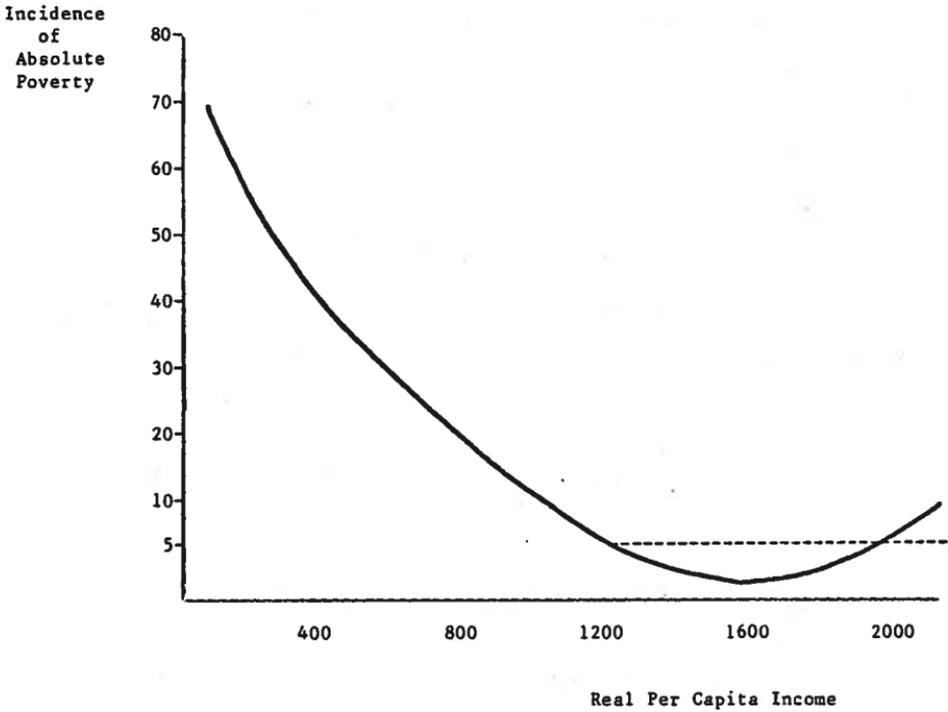
Table 2 Growth and Poverty

<u>Country Group</u>	<u>Average Per Capita Income Level</u>	<u>Incidence of Poverty</u>	<u>Share of LDC Poverty</u>	<u>Average Annual Per Capita GDP Growth</u>	
	(\$)	(%)	(%)		
				<u>1960-70</u>	<u>1970-77</u>
Low-income	170	50	81	1.5	0.9
Middle-income	1,140	19	19	3.7	3.5

World Development Report 1979 for data on income levels and growth rates. "Low-income" refers to countries at or below \$300 (1977 prices). Averages are weighted averages.

Source: Croswell, Michael J. Growth, Poverty Alleviation and Foreign Assistance, p. 21.

This rapid growth in the middle income LDCs has significantly reduced the numbers of people living in absolute poverty in these countries. Figure 1 below clearly indicates that the incidence of absolute poverty in the LDCs falls dramatically as one goes up the per capita income scale.

FIGURE 1

Source: Michael J. Croswell, "Growth, Poverty Alleviation, and Foreign Assistance," p. 17

What can be concluded from all this? Successful development appears to be taking place almost everywhere. The less developed countries as a group continue to experience growth in per capita gross national product. Their economies are being transformed at varying rates from largely agricultural

economies to industrial economies. During this process of growth, the incidence of absolute poverty appears to be declining. It can be asserted with substantial justification that the trickle down theory appears to work. Absolute poverty on a mass scale is largely a low income country phenomenon today. However, despite this twenty-five years of successful development, there are still enormous numbers of people living in absolute poverty. The best estimates that have been made of the numbers living in absolute poverty in the less developed countries center around 800 million people.

II. LEGISLATIVE HISTORY OF THE NEW DIRECTIONS PROVISIONS IN THE FOREIGN ASSISTANCE ACT AND OTHER BILLS

The goal of this part is to indicate in some detail the complexity of the basic guide for AID in implementing the New Directions policies, the legislation itself. The format chosen is intended to allow citation to the basic hearings, reports and bills if further research is needed on the origins and reasons for any particular provision.

The 1973 legislation set out the basic goals of the New Directions programs, major policy revisions and refinements were then made in 1975, and less wide ranging changes in other years.

A. THE FOREIGN ASSISTANCE ACT OF 1973 - (S. 1443)

1. The House of Representatives

On April 10, 1973, sixteen members of the House Foreign Affairs Committee wrote a letter to President Nixon expressing the belief that a major change in U.S. foreign economic aid policy was needed. The Administration responded with its own foreign aid bill (H.R. 7484) on May 3. However, because the Administration bill lacked substantive changes desired by the sixteen members, a bipartisan group of twenty-six Foreign Affairs Committee members introduced their own legislation on May 30. This legislation took the form of two identical bills (H.R. 8258 and H.R. 8297) and was entitled the Mutual Development and Cooperation Act of 1973.

a. Hearings

Hearings were held by the House Foreign Affairs Committee on the administration bill (H.R. 7484) and the Mutual Development and Cooperation Act (H.R.

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8258 and H.R. 8297) in ten sessions during May and June of 1973. ^{1/} Key witnesses commenting on the reform legislation included: John Hannah (Administrator for the Agency for International Development), William Rogers (Secretary of State), Kenneth Rush (Deputy Secretary of State), Jarold Kieffer (Assistant Administrator, Bureau of Population and Humanitarian Assistance, AID), William Paddock (author and consultant in tropical agricultural development), Orville Freeman (Business International Corporation), James Grant (President, Overseas Development Council), Edward Mason (Professor Emeritus, Harvard University), and James McCracken (Chairman, American Council of Voluntary Agencies). In addition, statements from Edgar Owens (AID official and author of Development Reconsidered), David Rockefeller (President, Chase Manhattan Bank), R.T. Ravenholt (Director, Office of Population, Bureau for Population and Humanitarian Assistance, AID), and Edward Hood (Vice President, General Electric Company) were among those submitted for the record.

Several common themes emerged from the hearings. Some of the witnesses believed that the traditional economic growth approach had failed to benefit the poor in a majority of the developing countries. These countries typically had exhibited impressive GNP growth rates, yet the standard of living among the poorest had declined relatively if not absolutely. Mexico, with a capital-intensive growth approach and high income concentration, was a commonly cited example of a country that had relied on the traditional approach.

^{1/} U.S. Congress. House. Committee on Foreign Affairs. Mutual Development and Cooperation Act of 1973. 93d Congress, 1st session on H.R. 7484, H.R. 8258 and H.R. 8297. May 15, 17, 23, 24, 31; June 5, 6, 11, 12, and 13, 1973. Washington. U.S. Govt. Print. Off. 1973. 670 p.

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On the other hand, countries such as Taiwan and South Korea were commonly referred to as the "success stories" in the developing world. According to James Grant the decentralized, labor-intensive approaches of these countries had proven very effective in improving the lives of the poor. The poor majority had had access to capital and services to meet basic needs in these countries, and had, thus, actively participated in the development process. The development results in these countries had shown that small producers and labor-intensive means could be efficient; that the poor could viably contribute to development; and more importantly, that social equity need not conflict with economic growth.

A proposal for an Export Development Credit Fund, perhaps the most novel aspect of the bill, was discussed at length. This fund was to provide concessional loans to the poorest countries in the developing world to facilitate their imports of U.S. development-related goods and services. The proposal was discussed extensively and on the whole, very favorably. The extent to which this credit would increase U.S. exports as opposed to merely displacing existing financing was debated. It was generally agreed, however, that this proposal could help reverse the trend of a declining volume of U.S. exports to the targeted countries. Commonly raised questions included: Would the Fund create U.S. jobs? Given the heavy debt burden among many poor countries, would the additional lending merely exacerbate their problems? Would Fund-financed exports help development?

The potential short and long-term benefits that would accrue to the United States from the Mutual Development and Cooperation Act were reviewed

extensively. ^{2/} It was generally felt that passage and implementation of such a bill would serve U.S. interests. It was observed that the developing world -- which occupied two-thirds of the earth's land area, contained vast amounts of natural resources and seventy-four percent of the world's total population -- would continue to play a major role in the global economy. The need for good relations with the developing countries was, hence, largely recognized as self-evident. The promotion of a development strategy as outlined by the Mutual Development and Cooperation Act was commonly viewed as one way to engender these good relations.

From an economic standpoint, the developing world was viewed by many witnesses as not only a potential source of vital raw materials and energy supplies, but also as an increasingly important market for U.S. goods. According to AID Administrator, John Hannah, thirty percent of all U.S. exports went to developing countries in 1970. Hannah maintained that the investment of U.S. capital in developing countries totaled \$30 billion and was growing at about ten percent a year. Strong, healthy relations were needed to enable the development of a satisfactory international monetary system as well.

In addition, it was maintained that the new bill, by helping to alleviate the poverty and inequality in the developing countries, would contribute to world stability and peace. Finally, it was contended that the U.S. economy would benefit directly from this foreign aid bill since most of the fund would be spent in the United States. Secretary of State William Rogers noted that approximately eighty percent of U.S. foreign assistance

^{2/} Included among the witnesses that discussed such matters were AID Administrator, John Hannah and Secretary of State, William Rogers. Ibid., p. 50ff and p. 254ff.

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money was being spent in this country. 3/

William Paddock provided the primary criticism of the new legislation and of AID programs in general. 4/ Based on his field study of the "most effective" development projects (as determined by the various development organizations that he approached) in Central America and Mexico, Paddock concluded that development professionals did not know how to implement effective development programs. Of the various projects he examined, none succeeded in achieving the intended objectives. Paddock stated that few professionals in the development field realized the extent of their ignorance, "we do not know that we do not know how" to implement effective development programs. 5/ Furthermore, there was no accurate way to measure the effectiveness of a project. The field reports were "grossly biased." Finally, foreign aid programs merely raised false hopes in the developing world. The drastic action needed to adequately upgrade the lives of the world's poor majority would possibly never be undertaken by the developing countries as long as they could continue to rely on the meager flow of aid from the developed countries. Paddock advocated a two-year moratorium on the start of any new AID program of loans. According to Paddock, AID should use this time to assess its past programs to "determine which parts were effective, which were not, and why," and to develop techniques for measuring the effectiveness of future programs.

3/ Ibid., p. 295.

4/ Ibid., pp. 370-389.

5/ Ibid.

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b. House Foreign Affairs Committee Report

After a mark up session on the bills, Foreign Affairs Committee Chairman Thomas Morgan introduced a clean bill, H.R. 9360, on July 18. The following day the Foreign Affairs Committee ordered, by a vote of thirty-one to nine, H.R. 9360 to be reported. Following is a summary of the "New Directions" portions of the House bill as stated in the House Report. 6/

1) Title of Act and Change in Name of Agency

The Foreign Assistance Act of 1961 was to be amended by the Mutual Development and Cooperation Act of 1973. The name of the agency responsible for administering the programs under the act was to be changed from the Agency for International Development to the Mutual Development and Cooperation Agency (MDCA).

The intent of such changes was to reflect more accurately the nature of the interdependent relationship emerging between the United States and the developing world. AID and "aid" had come to connote a one-way donor-recipient relationship. The title changes were to better depict the development process as a mutually beneficial one.

2) Statement of Policy

U.S. bilateral development aid was to concentrate increasingly on sharing American technical expertise, farm commodities, and industrial goods to meet critical development problems, with consequently less emphasis on large-scale capital transfers. The committee concluded that GNP growth was not a sufficient criteria for development. Benefits from capital transfers of past foreign aid programs largely failed to "trickle down."

6/ U.S. Congress. House. Committee on Foreign Affairs. Mutual Development and Cooperation Act of 1973; Report to accompany H.R. 9360. Washington, U.S. Govt. Print. Off. 1973. (93d Congress, 1st session. House. Report no. 93-388) 106 p.

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Bilateral development aid was to be given in association with contributions from other industrialized countries working in a multilateral framework. The committee stipulated that not until it was clear the multilateral channels existed which could effectively replace U.S. bilateral aid, should U.S. development assistance be given in multilateral form only.

Future U.S. aid was to be focused on three major functional categories: 1) food production, rural development, and nutrition; 2) population planning and health, education, public administration; and 3) human resource development. The Foreign Affairs Committee maintained that the ability of the United States to meet the "staggering" needs of low-income peoples was limited. Consequently, aid was to be efficiently targeted and based on clear priorities. These priorities were to be directly related to meeting the basic needs of the poorest majority in the developing world so that these people would have increased opportunities for employment, a more equitable share of the wealth, and greater social justice. The committee indicated that, in some cases, the greatest needs and opportunities would lie outside the main functional sectors. Consequently, the bill was structured so as to enable exceptions to be taken to permit funds to be used "where common sense would dictate." ^{7/} Projects that aimed at development through the "trickle down" approach were to be left to the multilateral banks and private investment.

More emphasis was to be given to coordinating project implementation with the private sector. The committee felt that there should be much less project implementation directly by the MDCA and more coordination with those U.S. institutions and groups that already had established ties

^{7/} Ibid. p. 17.

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in the developing countries, such as educational institutions, cooperatives, credit unions, and voluntary organizations. The intent of such coordination was to increase the effectiveness of the development projects while simplifying the MDCA's administrative requirements and decreasing costs (the number of MDCA personnel, both in the field and in Washington, was to be reduced).

In addition, development planning was to be better coordinated with the recipient country. It was stipulated that the developing country should take increasing responsibility in the project cycle. Furthermore, the committee stated that U.S. bilateral aid should give highest priority to undertakings submitted by host governments that directly improved the lives of the poorest majority and their capacity to participate in the development process. One purpose of the change in program orientation was to give LDCs the message to use technology suited to their needs, keep investments labor-intensive, and pay attention to the immediate needs of their poorest inhabitants. Finally, the MDCA was to coordinate all U.S. development-related activities.

3) Functional Budget Categories

a) Agriculture, Rural Development, and Nutrition. \$300 million was authorized for each of the fiscal years 1974 and 1975 for agriculture, rural development, and nutrition.

The committee report stated that in order for world food production to keep up with population growth, if current trends were projected, if one assumed population growth rates continued at the same pace in the developing world that world food production would have to double by the year 2000 merely to maintain current inadequate diets. Yet, according to the Committee, increasing production of food grains was not, by itself, sufficient. Better distribution of foodstuffs and better nutrition were essential objectives.

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Emphasis on research towards increasing food production and nutritional status was to be an important component in the development strategy.

Funds authorized for rural development were to be concentrated on local institutions such as cooperatives, banks, and market towns. Development of local infrastructure, particularly feeder roads, storage facilities, water supplies, and small-scale agriculturally-related industries was to be given priority.

b) Population Planning and Health. \$150 million was to be authorized for each of fiscal years 1974 and 1975 for population planning and health.

According to the committee, it was imperative that family planning program implementation be based on an "integrated," approach, that is, one that combined simultaneously family planning with programs to increase food, jobs, health, and education for the poor. The rural and urban poor who had little or no access to family planning and health services were to be the primary recipients of these funds. The committee advocated using paramedical personnel and building simple, yet utilitarian, rural health centers.

c) Education and Human Resources Development. \$115 million was to be authorized for each of fiscal years 1974 and 1975 for education, public administration, and human resource development.

The number of illiterate people in the developing world had increased, as had the number of children without access to an elementary education. The Committee argued that Western-style education was inappropriate in the developing countries; that low-cost innovative systems of education had to be provided. The funds under this section were thus to be targeted at expanding non-formal education with particular emphasis on reducing illiteracy. Higher education was given low priority. In addition,

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attempts to improve the administrative capacity of government at all levels were to be stressed.

d) Selected Development Problems. Included in the bill as reported by the Foreign Affairs Committee was a section authorizing \$93 million for each of fiscal years 1974 and 1975 for infrastructure projects, industry, and urban development. Though largely financing a continuation of the capital-intensive infrastructure projects of the previous years, this section was justified as part of a necessary "transitional" strategy. The projects were to be kept to a minimum and were to coincide as much as possible with the bill's general objective of benefiting the poorest majority. It was reasoned that most large infrastructure projects could (and would) eventually be multilaterally assisted.

e) Selected Countries and Organizations. \$60 million was to be allocated for each of fiscal years 1974 and 1975 for three purposes: 1) to support the general economy of certain key countries primarily through general program lending 8/; 2) to assist private development organizations such as the International Executive Service Corps, the Asia Foundation, cooperatives, credit unions, and voluntary agencies; and 3) to assist the development programs of international organizations such as the Organization of American States (OAS) and the Central Treaty Organization (CENTO).

The first purpose of the section, program lending, though a continuation of past AID policies, was to be greatly reduced from prior years. The committee anticipated that much of the direct program lending would be replaced by export credits under the Export Development Credit Fund.

8/ India, Pakistan, Indonesia, Sudan, and Ghana were to be the recipients for fiscal year 1974.

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Funds expended for the last two purposes of the section were to help fulfill the bill's objectives of increasing coordination with international and private development organizations. It was maintained that such an approach could augment the quality and flexibility of American assistance, and mitigate some of the difficulties and inefficiencies encountered in government-to-government relationships.

The total amount that was authorized by the House Foreign Affairs Committee in the Mutual Development and Cooperation Act was \$2,765,868,000. The economic aid programs amounted to \$1,610,868,000. The functional categories of the bill totalled \$718 million, \$14.5 million less than the former budget categories, Development Loans and Grants, that these provisions were to "replace."

4) The Export Development Credit Fund

The Export Development Credit Fund was intended to be a loan facility to expand U.S. exports to and, hence, advance the development of the lowest income countries of Asia, Africa, and Latin America. The main recipients were to be countries with less than \$375 per capita annual gross national product, though this criteria was to be administered with some flexibility. The credit extended was to be concessional, though "not easier than the minimum terms specified by law for development lending." 9/ The Fund was to be "treated in the same fashion as the Export-Import Bank for purposes of exclusion from budget totals and exemption from expenditure and outlay limitations." 10/ In addition, the Export Development Credit Fund was

9/ Ibid., p. 59.

10/ Ibid.

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only to be used to finance goods that advanced development objectives. Repayments from existing development loans were to be used to bridge the difference between the concessional lending of the Fund and its commercial borrowing. The bill authorized the President to borrow an amount up to one-fourth of Export-Import Bank loan, guaranty, and insurance authority (which was \$5 billion in 1973) during the period from the enactment of the bill through December 31, 1977, for the purposes of the Fund. Ten percent (\$500 million) of this amount, however, was to be reserved to cover unpaid debts. H.R. 9360 authorized the Fund to operate until December 31, 1977.

5) U.S. Development Assistance Coordination

A Development Coordination Committee was to be established by the President to advise him on U.S. bilateral and multilateral policies and programs affecting the development of low-income countries. The Development Coordination Committee was to be a statutory body, chaired by the Administrator of the MDCA. Its membership was to include officials of the Departments of State, Treasury, Commerce, and Agriculture as well as the Executive Office of the President, and others as designated by the President. The committee was to operate under the policy guidance of the Secretary of State.

The Foreign Affairs Committee maintained that there were only two organizations that coordinated U.S. policies and programs having international economic implications: the National Advisory Committee on International Monetary and Financial Policies (NAC), and the Council on International Economic Policy (CIEP). Neither body was development-oriented and/or sufficiently comprehensive in nature. Neither contained

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AID as a member. The committee highlighted the need for a more effective development-oriented coordination organization.

Included in the House Foreign Affairs Committee Report were the dissenting minority views of Representatives H.R. Gross, Edward J. Derwinski, Vernon W. Thomson, and J. Herbert Burke. These committee members maintained that the only major changes that had been made in the U.S. aid program were those changes that incorporated the pet projects of the bill's proponents. The end product, the opponents claimed, was largely a superficial transformation (a "rhetoric-wrapped package of bologna that is cut into sections instead of sliced. 11/") According to these committee members, H.R. 9360 would merely serve to subsidize a variety of domestic interests: universities and private organizations, business and banking (via the Export Development Credit Fund), cooperatives and labor. In addition, they argued that the Mutual Development and Cooperation Act's sponsors failed adequately to examine past shortcomings and failures of AID programs that could provide insight into the likelihood and means of success of future programs. "There was a lot of spilled verbiage about reaching the people - but no one asked how we are going to do that if the governments and leaders are not agreeable." 12/ Finally, J. Herbert Burke advocated that Congress, given the precarious state of the U.S. economy, attend directly to the welfare of the United States first. "When our own economic problems are solved, then we perhaps can help the rest of the world in keeping with our practice of helping others to help themselves." 13/

11/ Ibid., p. 103.

12/ Ibid.

13/ Ibid., p. 105.

c. House Floor Debate

On July 26, 1973, the House debated the Mutual Development and Cooperation Act of 1973. Several of the bill's proponents (Representatives Morgan, Zablocki, Biester, Frenzel, and Badillo) reviewed the reform provisions in terms similar to those used during the hearings. Both humanitarian and pragmatic reasons for supporting the bill were presented.

A smaller group of Congressmen (particularly, Gross, Passman, Randall, and Hays) emphatically dissented with respect to the U.S. foreign aid program in general and the reform measures in specific. Many in this contingent felt the "New Directions" legislation was merely a facade for the same old giveaway programs of former years. Representative Randall felt U.S. domestic development should have first priority. The adverse effects of the bill on the dollar abroad and consequently inflation at home were commonly mentioned by the bill's opponents. Representative Gross cited several AID failures as evidence of the ineptitude of the foreign aid program. Representative Zablocki countered Gross' discussion with several of AID's more effective projects.

Representative Gross proposed several amendments that sought to:

- a) reduce funds authorized in each of the five budget categories; and b) eliminate the President's power of authorizing the appropriations in these categories. All the amendments were rejected. Representative Symms proposed an amendment to reduce each authorization in the bill by 2 percent. This, too, was rejected.

Significant criticism was directed at the Export Development Credit Fund. Representative Passman cited fifteen development lending agencies already in existence (e.g., AID's Development Loan Fund, the Export-Import Bank, the International Bank for Reconstruction and Development, the Asian

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Development Bank). According to Passman, an additional lending agency would clearly be superfluous.

It was maintained that the Export Development Credit Fund would prove a costly venture. The question of the ability of the developing countries to pay back the loans was raised often. Many felt the Fund was unjustifiable on the grounds that American businessmen and industries would not have comparable access to credit on such concessional terms. Would not the United States benefit more directly if these credit terms were offered to domestic consumers and businesses instead?

Representative Vanik contended that the bill remained unclear with respect to the types of export goods to be included in the Fund. How was a development-related good to be defined? In addition, Mr. Vanik felt that the Export Development Credit Fund simply did not belong in the Mutual Development and Cooperation Act, but rather in trade legislation which, at the time of the floor debate on the foreign aid bill, was being considered by the Ways and Means Committee.

Representative Passman offered an amendment to delete the Export Development Credit Fund from the Mutual Development and Cooperation Act of 1973. The amendment was agreed to by a recorded vote of 240 ayes to 137 noes.

A motion to recommit H.R. 9360 and reduce the total authorization by \$68 million was passed. The final passage of the bill was then agreed to by a vote of 188 to 183.

2. The Senate

a. Hearings

On June 20, 1973, Senators Humphrey, Aiken, and McGee introduced the Senate's version of the Mutual Development and Cooperation Act, S. 2026. Hearings were held on this bill (together with the Administration's bill, S. 1711) on

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June 26 and 27. 14/ In addition, Senator Fulbright introduced his own bill, S. 2059 (which radically differed from the other foreign aid bills), "not for the purpose of obtaining action on it (that) session, but in order to stimulate public discussion of foreign assistance issues". 15/

Many of the witnesses that appeared before the House Foreign Affairs Committee also spoke during, or supplied statements for, the Senate Foreign Relations Committee's hearings. Such witnesses included Dr. John Hannah, Jarold Kieffer, William Paddock, Orville Freeman, James Grant, Robert Nooter (Assistant Administrator for Supporting Assistance, AID), William Draper (Honorary Chairman, Population Crisis Committee), and Leonard Woodcock (United Auto Workers). Additional substantive input was supplied by Dr. Timothy Stanley (Executive Vice President, International Economic Policy Association), Father Theodore M. Hesburgh (President, University of Notre Dame), Dr. George Lodge (Graduate School of Business Administration, Harvard University), and Senators Humphrey, Fulbright, and Chiles.

Much was reiterated from the House committee hearings during these two sessions. The proposed legislative changes were reviewed and were met largely with approval. 16/ Several witnesses believed that a change in the foreign aid program was necessary and that past aid programs had largely failed to benefit the poor in the LDCs. Some witnesses questioned,

14/ U.S. Congress. Senate. Committee on Foreign Relations. Foreign Economic Assistance, 1973. Hearings, 93d Congress, 1st session on S. 1711, S. 2026 and S. 2059. June 26 and 27, 1973. Washington. U.S. Govt. Print. Off. 1973. 371 p.

15/ Ibid., p. 1.

16/ Included among those who stated explicit approval of the bill during the hearings were Dr. Hannah, Orville Freeman, Theodore Hesburgh, Dr. Lodge, Dr. Stanley, and Leonard Woodcock. Ibid., p. 67ff., p. 324ff., p. 262ff., p. 254ff., p. 310ff., and p. 358ff., respectively.

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however, whether AID could ever effectively address the change required for global stability and peace. Evolutionary change, as advocated by the United States and furthered by AID programs, might prove insufficient.

As in the House hearings, William Paddock provided the main dissenting viewpoint (see House hearings). AID in a prepared statement, countered Paddock's conclusions and findings with three primary criticisms: 1) his study was based on a few isolated projects; 2) his conclusions overlooked the basic responsibilities of the recipient countries to put to effective use the foreign assistance; and 3) his study reported out-of-date and inaccurate data for those few projects that were examined.

The degree to which the new legislation would be in the national interest was reviewed extensively. ^{17/} In addition, the urgency of successful family planning in the developing countries emerged as a common theme. The need for continued congressional support for family planning was noted. William Draper cited Taiwan, Singapore, Korea, and Hong Kong as examples of developing countries that had incorporated successful family planning techniques into viable development strategies.

Finally, world food shortages and the impact of the Green Revolution on these shortages were discussed at length. It was acknowledged by many that modern technology, despite the successes of the Green Revolution, appeared to be no panacea.

b. Senate Foreign Relations Committee Report

After three days of executive sessions, a clean bill, S. 2335, was

^{17/} Witnesses who maintained that such a bill was in the national interest included Dr. Hannah, Dr. Lodge, Theodore Hesburgh, and Dr. Stanley. Ibid., p. 67ff., p. 254ff., p. 262ff., and p. 310ff., respectively.

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ordered reported on July 14 by a vote of 12-3. 18/ Senators Sparkman, Pell, McGee, McGovern, Humphrey, Case, Javits, Scott, Pearson, Percy, and Griffin voted in favor. Senators Fulbright, Mansfield, and Church voted against.

1) Export Development Credit Fund

On August 2, S. 2335 was referred to the Senate Finance Committee for appraisal of the Export Development Credit Fund. The Finance Committee submitted its report on September 10, recommending the Fund be deleted. 19/ The main reasons for this recommendation included: 1) the opinion that such a fund would be superfluous, given the wide array of development-lending institutions already in existence; 2) the potentially deleterious impact such a fund would have on the dollar abroad, and inflation at home; 3) the fact that the Fund would provide credit to foreigners at a much lower rate than would be available to Americans; and 4) that the Export Development Credit Fund would not be subject to the annual authorization and appropriation processes.

S. 2335 (as reported by the Senate Foreign Relations and Senate Finance Committees) contained virtually the same framework with respect to the "New Directions" legislation as did the House bill, H.R. 9360.

Though the proposal by the House Foreign Affairs Committee to change the title of the act and name of agency was not adopted by the Senate Foreign Relations Committee, essentially all the major policy declarations

18/ U.S. Congress. Senate. Committee on Foreign Relations. Foreign Assistance Act of 1973; Report to accompany S. 2335. Washington, U.S. Govt. Print. Off., 1973. (93d Congress, 1st session. Senate. Report no. 93-377) 66 p.

19/ U.S. Congress. Senate. Committee on Finance. The Foreign Assistance Act of 1973; Report to accompany S. 2335. Washington. U.S. Govt. Print. Off., 1973. (93d Congress, 1st session. Senate. Report no. 93-386) 4 p.

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were. Between committees, the functional categories did differ, however, in amounts authorized, and consequently merit brief attention.

2) Functional Budget Categories:

a) Agriculture, Rural Development. \$282 million was to be allocated for agriculture, rural development, and nutrition for each of fiscal years 1974 and 1975. As with the House bill, these funds were to concentrate on local infrastructure, local institutions, and the small farmer. With respect to nutrition, special emphasis was to be placed on improving the diets of young children and pregnant women.

b) Population Planning and Health. \$141 million was to be earmarked for population planning and health for each of fiscal years 1974 and 1975. \$150 million was to be allocated for this category in the House bill. The Senate Foreign Relations Committee allocated \$125 million for programs relating to population growth for each of fiscal years 1974 and 1975. The committee's intended use of the funds for both population planning and health paralleled closely the House Foreign Affairs Committee's approach.

c) Education and Human Resources Development. \$94 million was to be used for education, public administration, and human resource development purposes. This compares with the \$115 million to be allocated for this section in H.R. 9360. As with H.R. 9360, these funds were to be used towards decreasing illiteracy and increasing vocational skills and manpower training. Emphasis was to be placed on the integration of women into the national economy.

d) Selected Development Problems. \$47 million was to be utilized for projects in transportation and power, industry, and urban development. \$93 million was to be allocated for this purpose in the House bill. Unlike

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the House committee, the Senate Foreign Relations Committee explicitly stated that such projects should be small-scale in nature; projects which would be of greatest benefit to the local people involved. The committee asserted that no more showplace projects were to be financed by AID.

e) Selected Countries and Organizations. \$28 million was to be allocated for this section. \$60 million was authorized in H.R. 9360. The committee's intended use of these funds was identical to the House Foreign Affairs Committee's objectives.

Two major Senate provisions were not contained in the House bill. They were: 1) at least 25% of the cost of a project or activity included one of the five functional budget categories was to be paid by the recipient country; and 2) not more than one-half of aggregate appropriations for the five new categories was to be used for grants.

The Senate Committee's version of the Export Development Credit Fund differed slightly from the House version. The Senate Foreign Relations Committee proposed that the Fund be authorized to make loans up to 15 percent (rather than 25 percent as in the House bill) of the Export-Import Bank's obligations. This was equivalent to \$3 billion. The Senate committee also specified that the President could extend credit at interest rates not less than 3 percent per year, that repayment was to be within 30 years, with a grace period of not more than five years. Countries below \$375 per capita GNP were to be the recipients with particular emphasis on the least development countries with \$200 per capita GNP or less.

The total amount authorized by the Senate Foreign Relations Committee in S. 2335 for economic assistance for each of fiscal years 1974 and 1975 was \$1,218,222,000. The five new functional budget categories were to total

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\$592 million for fiscal year 1974, lower than the \$650 million to be allocated for similar purposes in the House bill, or the \$733 million actually allocated in fiscal year 1973 for comparable programs.

c. Senate Floor Debate

On October 1 and 2, 1973, S. 2335 was debated on the Senate floor. Senator Humphrey, as floor manager, reviewed the provisions of the bill and the potential mutual benefits that would accrue in the U.S. and the developing world from the bill. An amendment that would authorize the President to create a high level commission to study and report on the world food situation through 1985 was proposed by the Senator. The commission's report was to include world food production and utilization estimates, assessments of the transportation, fertilizer, and distribution facilities, future sources of protein, projects of food relief requirements, and the role of national trade policy in encouraging agriculture. The amendment was adopted by the Senate.

Senator Fulbright, Chairman of the Foreign Relations Committee, advocated reverting back to the format of the existing Foreign Assistance Act but with a reduction of \$217 million from the existing budget. Two reasons were given: 1) the new bill was a cosmetic effort designed to give a facelift to the existing foreign aid program; and 2) the state of the domestic economy and the government's fiscal condition were such that the United States could not afford to squander its resources via a bill that was both "deceptive and defective." Fulbright claimed that S. 2335 was so loosely drawn that it was conceivable all the funding for the new categories could remain within the United States. According to Mr. Fulbright, adoption of S. 2335 would create the illusion that major corrective change had taken place.

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Mr. Fulbright's substitute bill would continue the existing program at a slightly reduced level, giving Congress the opportunity to conduct an indepth study of the U.S. foreign aid program.

To support his claims, Mr. Fulbright inserted into the record articles by Peter T. Bauer and William Paddock. Bauer, in his article, "The Case Against Foreign Aid," maintained that aid was not necessary for development, and, in fact, would produce a deleterious net-effect in the developing country. ^{20/} Some of these repercussions included: 1) a reduction in self-reliance; aid often reinforced "torpor, fatalism, or even beggary and blackmail"; 2) aid promoted the adoption of "inappropriate external prototypes" (e.g., capital-intensive technology); and 3) aid reinforced the resources and power of the government and bureaucratic elite in the LDCs - typically a status quo repressive to many. Bauer contended that development depended on people's capacities, motivation, and social and political institutions. If a society could not develop without external aid, it would not develop with it. Thus, whether aid promoted development or not depended on the specific circumstances of each country.

In response to Senator Fulbright's contentions, Senator Kennedy endorsed S. 2335, claiming that the bill would not be cosmetic if Congress followed through with it. Noting domestic fiscal difficulties, Kennedy, nevertheless, felt the \$1.2 billion allocated for the bill should remain. According to Kennedy, this was a small sum to begin with in terms of

^{20/} Bauer, Peter T: The case against foreign aid. Insertion in the Record by Senator Fulbright. Congressional Record, v. 119, October 2, 1973: S. 18392-18293.

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effectively assisting the developing world. A reduction in the amount authorized would deny the legislation a chance of ever working.

Senator Fulbright's amendment was rejected 31 to 64.

Senator Church proposed an amendment to reduce the overall authorization of S. 2335 by \$134 million. The Senator stated that the bill should be viewed as one component of an extravagant and largely ill-conceived \$7.8 billion foreign assistance program which included military and security assistance, P.L. 480, and Export-Import Bank loans. According to Mr. Church, the United States was bearing a "far, far larger burden" of foreign assistance than any other country. Concurring with Senator Fulbright, Senator Church stated that the new bill was largely cosmetic. "The same agency with the same people will still be dispensing money for the same projects and programs." ^{21/} The only substantial change that would result from S. 2335 would be a change in Congress - and a negative change at that. According to Mr. Church, congressional control over AID money (what categories the money will go towards, and in what form - grants or loans) would lessen. Senator Church's amendment was rejected by a vote of 31 to 64.

Additional related amendments considered, and accepted, on the floor included: 1) the Senate Finance Committee's amendments deleting the Export Development Credit Fund; 2) an amendment by Senator Church stipulating congressional approval of the use of AID's reprogramming funds; and 3) Senator Percy's amendment providing for increased emphasis and attention to integrating women into the national economies while administering the

^{21/} Church, Frank. Foreign Assistance Act of 1973. Remarks in the Senate. Congressional Record, v. 119, October 2, 1973: S. 18380.

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new functional sections of the bill.

S. 2335, the Foreign Assistance Act of 1973, was passed by the Senate by a vote of 54 to 42 on October 3, 1973. On October 10, the House took up consideration of S. 2335. A substitute bill, inserting the contents of H.R. 9360 for the text of S. 2335, was passed. Each house insisted on its own version. A conference was requested. Representatives Morgan, Zablocki, Hays, Fascell, Mailliard, Frelinghuysen, and Broomfield were appointed House conferees. Senators Fulbright, Church, Humphrey, Aiken, and Case were appointed Senate conferees.

3. Conference Report on S. 1443 (H. Rept. 93-664)

The Conference Report on S. 1443 22/ was filed on November 27, 1973. 23/ The bill authorized economic assistance for one fiscal year (1974). The major reconciliations pertinent to this study were as follows:

a. Title of Act and Change in Name of Agency

The House measure to change the name of the Foreign Assistance Act to the Mutual Development and Cooperation Act, and the Agency for International Development to the Mutual Development and Cooperation Agency was deleted.

b. Statement of Policy

The conferees reconciled three major policy statement differences:

- 1) The Senate's provision to include emphasis on employment-intensive

22/ The Conference Committee considered the House and Senate versions of the economic aid bill, S. 2335, but reported out S. 1443, the number of a military aid bill which had been passed separately earlier. S. 1443 as reported from Conference authorized both military and economic aid.

23/ U.S. Congress. Conference Committees, 1973. The Foreign Assistance Act of 1973; Conference Report to accompany S. 1443. Washington. U.S. Govt. Print. Off., 1973. (93d Congress. 1st session. House. Report no. 93-664) 55 p.

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technologies suitable to the less developed countries was deleted.

ii) The Senate bill contained a policy statement urging a shift to multilateral approaches to development. The House version stated that U.S. development assistance should continue via bilateral channels "until it is clear that multilateral channels exist which can do the job with no loss of development momentum". Both statements were omitted.

iii) The House stipulation that the role of U.S. private investment in development programs should be emphasized was adopted. The Senate bill had not contained a comparable measure.

c. Policy Provisions Pertinent to the "New Directions" Budget Categories

1) The Senate provision that no amount available in the five new functional budget categories could be obligated for any follow-on project without further congressional authorization was deleted. 2) The Senate provision limiting grants under the functional budget categories to not more than 50 percent of the funds appropriated for each fiscal year for these sectors was deleted. 3) The Senate section providing for not less than \$20 million during fiscal years 1974 and 1975 for assistance in the development of cooperatives in less developed countries was adopted. 4) The Senate provision prohibiting the use of funds, directly or indirectly, to pay for abortions in developing countries was accepted. 5) The Senate provision containing language urging full participation by the United States in efforts to alleviate current and future food shortages, and to establish a high level commission to study the world food situation was adopted.

The figures decided upon by the conference committee in comparison to the House and Senate authorizations for the new functional budget categories were as follows:

Authorizations for "New Directions" Programs (in millions of dollars)						
	Senate - S. 2335		House - H.R. 9360		Conference	
	1974 <u>a/</u>	1975	1974	1975	1974	1975
Food and Nutrition	282	282	300	300	291	291
Population Planning and Health	141	141	150	150	145	145
Education and Human Resources Development	94	94	90	90	90	90
Selected Development Problems	47	47	60	60	53	53
Selected Countries and Organizations	28	28	50	50	39	39
Totals <u>b/</u>	<u>592</u>	<u>592</u>	<u>650</u>	<u>650</u>	<u>618</u>	<u>618</u>

a/ In fiscal years

b/ The original amounts of the new functional budget categories decided upon by the House Foreign Affairs Committee in H.R. 9360 were reduced by \$68 million during the floor debates.

On December 4, 1973, the House agreed to the Conference Report by a vote of 265 to 137. The following day, the Senate agreed to the Report by a vote of 44 to 41. S. 1443 became Public Law 93-189 on December 17, 1973.

Total economic and military aid authorized for fiscal year 1974 was \$2,392,234,000. Total economic assistance was to be \$1,429,734,000. The new functional budget categories amounted to \$618 million or approximately 26 percent of the total bill.

B. FISCAL YEAR 1974 FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS ACT - (H.R. 11771)

1. Hearings (Senate and House)

The hearings on the "New Directions" legislation before the Senate and House appropriations committees were virtually the same. The Senate hearings before the Subcommittee on Foreign Assistance and Related Programs were dispersed throughout April and May of 1973. The House hearings before the House Subcommittee on Foreign Operations and Related Agencies took place during July 1973.

John Hannah (Administrator for AID) reviewed in detail before both committees the measures proposed, namely: 1) the new functional budget categories; 2) the Export Development Credit Fund; 3) the change in name of the act and agency; and 4) the new coordination initiatives. Past and future programs were discussed in terms of their objectives, effectiveness, and impact on the United States. The advantages and disadvantages of multilateral and bilateral assistance were weighed. The regional AID programs in Africa, Latin America, and Asia were extensively reviewed by AID personnel. Discussions of programs in specific countries ensued.

The United States' role in assisting U.N. affiliated organizations and programs as well as domestic and international cooperative organizations was reviewed. Jarold Kieffer (Assistant Administrator for Population and Humanitarian Assistance, AID) and Dr. R.T. Ravenholt (Director, Office of Population, Bureau for Population and Humanitarian Assistance, AID) discussed at length the functions of the newly created Bureau for Population and Humanitarian Assistance emphasizing the critical need for population planning and coordinating development efforts with the private voluntary organizations.

2. The House of Representatives

On December 4, 1973, the House Appropriations Committee reported H.R. 11771, the Foreign Assistance and Related Programs Appropriations Act of 1973. 24/ The act consisted of four sections (titles). Title I referred to Foreign Assistance Act activities and conformed closely to the format initiated by the House Foreign Affairs Committee.

For Title I, the House Appropriations Committee recommended appropriations of \$2,044,932,000 for fiscal year 1974. This was a reduction of \$456,750,000 below the budget estimate for 1974 (the executive branch request); \$185,289,000 below fiscal year 1973 appropriations; and \$347,302,000 below the total amount authorized in the Foreign Assistance Act of 1973. The new functional budget categories totaled \$580 million. (See table at end of this section for amounts recommended for individual functional categories.)

Virtually all of the House Appropriations Committee policy statements concerning "New Directions" matters paralleled closely or were taken from the Foreign Affairs Committee Report on the Mutual Development and Cooperation Act.

The Foreign Assistance Appropriations Act was debated on the floor on December 11, 1973. Several amendments were rejected, none of which related directly to the "New Directions" legislation. That same day, the House passed the Appropriations Act by a vote of 219-180.

24/ U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1974; Report to accompany H.R. 11771. Washington, U.S. Govt. Print. Off. 1973. (93d Congress. 1st session. House. Report no. 93-694) 75 p.

3. The Senate

The Foreign Assistance Appropriations Act was referred to the Senate Appropriations Committee on December 12. The following day, H.R. 11771 was reported. ^{25/} The Senate committee's report contained a much more detailed treatment of the "New Directions" proposals than had been the case in the House Committee report.

The Senate committee recommended that \$1,647,057,000 be appropriated for Foreign Assistance Act activities. This was \$395,866,000 less than the amount recommended by the House committee. The new functional budget categories totaled \$590 million -- \$10 million more than the House Appropriations Committee's recommendations. (See table at end of this section for amounts recommended for individual functional budget categories.)

a. Functional Budget Categories

1) Food and Nutrition

The Senate committee report stipulated emphasis in several areas. Forty percent of the funds were to be allocated for agricultural planning and rural development, including land reform and construction of rural roads. Over one-third of this category's funds was to be channeled into programs concerned with rapidly increasing the quantity of food in recipient countries. Emphasis was to be placed on agricultural productivity and technology - including fuller utilization of the aquacultural yield of the world's oceans. The report also recommended that \$30 million be allocated for researching innovative ways to create new, low cost foods

^{25/} U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1974; Report to accompany H.R. 11771. Washington, U.S. Govt. Print. Off. 1973. (93d Congress. 1st session. Senate. Report no. 93-620) 147 p.

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and to increase the nutritive content in traditional cereals and starchy foods.

2) Population Planning and Health

Almost one-half of the amount for population planning and health was to be used to build effective systems for the delivery of family planning and health services. Twelve percent of the \$145 million was to be used for training and program evaluation.

3) Education and Human Resources Development

The Senate Appropriations Committee reiterated the authorization committees' objective that emphasis be placed on low-cost, non-traditional systems of education. Specifically, \$2.7 million was to be programmed for research and for tests of low-cost, non-formal education. Acknowledging the inadequacy of formal educational systems in the developing world, the committee, nevertheless, stipulated that formal education programs were to be supported on a selective basis so that the minimum numbers of essential professional, technical, and clerical personnel could continue to be trained.

4) Selected Development Problems

In addition to what was stated in the authorization committees' reports, the Senate Appropriations Committee noted that new demands for land use controls, essential municipal services, and more housing had accompanied rapid urbanization in the developing world. Presumably, the committee's intent was to target the \$29 million recommended for selected development problems towards satisfying these specific demands.

5) Selected Countries and Organizations

The Senate committee specified that special emphasis was to be placed on programs designed to promote the development of capital at the grass

roots level - through co-ops, credit unions, savings and loan associations, for example.

On December 17, the Senate debated the appropriations bill on the floor. Ten amendments were adopted, though, as in the House, none related directly to the "New Directions" legislation. The bill was passed by a vote of 55 to 31.

4. Conference Committee

A conference was arranged to resolve the differences between the House and Senate versions. The figures recommended by the conferees for the new functional budget categories for fiscal year 1974 appear in the table at the end of this section. The total of the new functional budget categories combined, \$585 million, was \$5 million less than the Senate appropriations bill and \$5 million more than the House bill.

The conferees' joint statement included an amendment deleting the House Appropriations Committee provision which would have prohibited the usage of any grants earmarked for any of the five new functional budget categories which had not been justified to the Congress. 26/ In addition, in concurrence with a proposal of the House Appropriations Committee, not more than \$300 million of the \$585 million appropriated for the five categories was to be made available for grants.

On December 20, 1973, the House and Senate agreed to the conference report. H.R. 11771, the Foreign Assistance and Related Programs Appropriations Act of 1974, became Public Law 93-240 on January 2, 1974.

26/ U.S. Congress. Conference Committees, 1973. Foreign Assistance Appropriations, Fiscal year 1974; Report to accompany H.R. 11771. Washington. U.S. Govt. Print. Off., 1973. (93d Congress, 1st session. House. Report no. 93-742) 13 p.

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Fiscal Year 1974 Appropriations for "New Directions" Programs
(in millions of dollars)

	<u>FY '73 Budget</u>	<u>Authorizations</u> FY 1974	<u>H. Approp.</u> FY 1974	<u>S. Approp.</u> FY 1974	<u>Public Law</u> FY 1974
Worldwide, Technical Assistance	155				
Alliance for Progress, Technical Assistance	77.5				
Programs relating to Population Growth	100				
Alliance for Progress, Development loans	150				
Development loans	250				
Food and Nutrition		291	277	291	284
Population Planning and Health		145	125	145	135
Education and Human Resources Development		90	88	90	89
Selected Development Problems		53	52	29	40.5
Selected Countries and Organizations		39	38	35	36.5
Totals	732.5	618	580	590	585

MAJOR CHANGES IN "NEW DIRECTIONS" POLICIES AND PROGRAMS AFTER 1973

C. FOREIGN ASSISTANCE ACT OF 1974 (S. 3394)

Because the 1973 bill had authorized economic aid for two fiscal years, the 1974 Foreign Assistance Act consisted largely of military assistance authorizations. There were, however, some changes in the legislation affecting "New Directions" programs and policies.

1. Overall Policy

In its report's introductory section, the House Foreign Affairs Committee elaborated further on the development assistance policy set out in the 1973 legislation. ^{27/} The committee noted that in addition to targeting aid directly to the poor, a primary purpose of the 1973 reform measures was to put an end to all transfers of resources which could be handled by the private sector, World Bank, or by regional and other international institutions. Furthermore, potential programs were to be judged not merely on whether they were intended to benefit the poor, but on whether they were designed to enable the poor to take an active part in the development process. The committee stated that it expected a preliminary report by

^{27/} U.S. Congress. House. Committee on Foreign Affairs. Foreign Assistance Act of 1974; Report to accompany H.R. 17234. Washington. U.S. Govt. Print. Off., 1974 (93d Congress, 2d session. House. Report no. 93-1471) 80 p.

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the end of the calendar year (1974) on what was being done in the way of implementation of the reforms, and a full report at the time of the presentation of the legislative program for FY 1976. The committee recommended a widespread effort on the part of AID to inform and educate its own personnel and potential recipient countries on the reform measures.

The House committee also stated its expectation that the Development Coordination Committee would work with the Council on International Economic Policy. The committee felt that both organizations should assist the joint ministerial committee 28/ of the International Monetary Fund and the World Bank in examining issues involving the transfer of real resources to the developing world.

2. Functional Budget Categories

a. Food and Nutrition

The administration proposed a \$225 million increase in the existing FY 1975 authorization for food and nutrition programs - an increase which would bring the total to \$516 million. As elucidated throughout passage of the bill from the hearings to the conference report, the developing world was particularly hard hit by recent widespread scarcities and consequently rapidly increasing prices of food, petroleum, and fertilizer. Further justification for the increased authorization included the need to counteract the 50 percent reduction in the availability of receipts from prior loans as mandated by the 1973 Foreign Assistance Act.

28/ The establishment of the joint ministerial committee of the IMF and the World Bank was recommended by the C-20 Group of the Finance Ministers Meeting in Washington, June 13, 1974.

The question of whether AID could effectively absorb such a large increase in its Food and Nutrition programs was debated in the hearings and floor debates. AID officials felt that given the recent reduction in loan receipts available to AID and the significantly higher costs involved in implementing the programs (higher food and fertilizer costs, for example), this increase could be efficiently utilized.

The House-Senate conference authorized an increase of \$209 million in the existing fiscal year 1975 authorization for Food and Nutrition, bringing the total authorization for the category to \$500 million. The Senate bill had authorized an increase of \$239 million; the House bill \$180 million.

A new subsection was added to the Food and Nutrition category directing that special attention be given to increasing agricultural production in those countries with per capita incomes of under \$300 a year which had been most severely affected by the sharp commodity price increases. Particular emphasis was to be placed on increasing the productivity of small farmers. According to the House Foreign Affairs Committee, this was the key to broad based rural development, which, in turn, would be instrumental in slowing population growth. ^{29/} The Senate Foreign Relations Committee maintained that the greatest potential for significantly increasing world food production at relatively low cost lay in increasing the productivity of small farmers who constituted a majority of nearly one billion people

^{29/} Ibid., p. 11.

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in the developing countries. 30/ Specific means to assist the small farmer as proposed by Daniel Parker, Administrator for AID, included allocating funds for improving rural roads, irrigation systems, market towns, and co-ops.

b. Population Planning and Health

The FY 1975 authorization for Population Planning and Health was increased from \$145 million to \$165 million. \$150 million of these funds were authorized for programs relating to population growth. The FY 1974 authorization for FY 1975 population programs had been \$130 million.

c. Education and Human Resources Development

The FY 1975 authorization for Education and Human Resource Development was increased by \$2 million to \$92 million. The Senate Committee stipulated in its report that \$3 million was to be earmarked to help expand and improve the organization and management of the Opportunities Industrialization Centers International (OICI) which at the time of the committee's report was engaged in alleviating urban employment problems in four African countries (Ethiopia, Ghana, Kenya, and Nigeria).

3. Other Related Provisions

Authority to issue guarantees in connection with the Agricultural and Productive Credit and Self-Help Community Development Program was transferred from the Overseas Private Investment Corporation (OPIC) to

30/ U.S. Congress. Senate. Committee on Foreign Relations. Foreign Assistance Act of 1974; Reports to accompany S. 3394. Washington. U.S. Govt. Print. Off., 1974. (93d Congress. 2d session. Senate. Report nos. 93-1134 and 93-1299) p. 21 and 11 respectively.

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the Agency for International Development. Both the House Foreign Affairs Committee and the Senate Foreign Relations Committee believed that the program fell more appropriately under the purview of AID. 31/ The agricultural credit program was designed to encourage private banks, credit institutions, and private non-profit development organizations to make loans for agricultural purposes and community development projects. Among the projects and purposes listed were: wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, looms, schoolhouses, sanitation facilities, community centers, food industry development, and handicraft aids.

The Foreign Assistance Act of 1969 had restricted the Agricultural and Productive Credit and Self-Help Community Development program to five Latin American countries. Both committees felt that, given the fact that the results of the pilot programs were yet unclear and the program was to be transferred to a new administering agency, the restriction should be retained.

Inserted into the record by Senator Church during the Senate floor debate on S. 3394, was a series of articles by two Philadelphia Inquirer journalists, Donald Barlett and James Steele. 32/ The authors sifted through thousands of pages of State Department reports and examined a variety of foreign aid projects in four countries: Thailand, Peru, Korea, and Colombia. Their basic conclusion was that the U.S. foreign

31/ Op. cit., House Report 93-1471, p. 32; Senate Report 93-1299, p. 22.

32/ Barlett, Donald L., and Steele, James B., Philadelphia Inquirer article series on foreign aid, November 1974. In remarks of Senator Frank Church. Congressional Record. v. 120, December 4, 1974: S. 20558-20576.

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aid program had gone "terribly awry." It had enriched the rich and impoverished the poor. The foreign aid program had been punctuated by deception, profiteering, waste and corruption, and gave "every indication of running out of control." The program had aggravated the world food shortage by discouraging agricultural production. It had entrenched those in power and generated windfalls for selected businesses at home and abroad. Rather than serving as a catalyst to self-sustaining development, the U.S. foreign aid program had increased the dependency of the developing countries on the United States. The developing world had become increasingly indebted to its donors which necessitated continued borrowing to pay off past loans. According to Barlett and Steele, in program after program the State Department rhetoric failed to match reality.

Senator McGee, making the primary rebuttal, maintained that the articles were filled with "myths and misstatements of facts." 33/ According to McGee, the U.S. aid program had been growing leaner rather than the reverse as Barlett and Steele contended. Furthermore, the program had been generally well received worldwide. It was undeniable that flaws existed; that results did not always match objectives. Yet one could not expect miracles. Development was a long and complex process understood fully by no one. The Senator stated that few programs were under closer and more continuous scrutiny than those of AID.

33/ McGee, Gale. Foreign Assistance Act of 1974. Remarks in the Senate. Congressional Record. v. 120, December 4, 1974: S. 20578-20579.

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FY 1975 Authorizations by S. 3394 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>	<u>Total Authorizations for FY 1975 (S. 1443 + S. 3394)</u>
Food and Nutrition	180.3 <u>a/</u>	239 <u>a/</u>	209 <u>a/</u>	500
Population Planning and Health	20 <u>b/</u>	20 <u>b/</u>	20 <u>b/</u>	165
Education and Human Resources Develop.	-	2 <u>c/</u>	2 <u>c/</u>	92
Selected Development Problems	-	-	-	53
Selected Countries and Organizations	-	-	-	39
Total	<u>200.3</u>	<u>261</u>	<u>231</u>	<u>849</u>

a/ In addition to the \$291 million previously authorized for FY 1975.

b/ In addition to the \$145 million previously authorized for FY 1975.

c/ In addition to the \$90 million previously authorized for FY 1975.

D. FISCAL YEAR 1975 FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATION ACT (h.R. 4592)

On March 26, 1975, Congress passed the FY 1975 Foreign Assistance and Related Programs Appropriations Act. The bill totaled \$3.7 billion. The amounts appropriated for the functional budget categories were as follows:

1. FY 1975 Appropriations for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	234	450	300
Population Planning and Health	115	145	125
Education and Human Resource Develop.	82	82	82
Selected Development Problems	37	40	37
Selected Countries and Organizations	30	32	30
Total	<u>498</u>	<u>749</u>	<u>574</u>

2. Other Pertinent Provisions

According to the House Appropriations Committee ^{34/}, existing patterns of manpower such as traditional midwives, village volunteers, religious leaders, and indigenous practitioners should be utilized in population control and health programs. AID should rely more on contract hire personnel as well. Finally, the population control program could only be successful

^{34/} U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1975; Report to accompany H.R. 4592. Washington. U.S. Govt. Print. Off., 1975. (94th Congress. 1st session. House. Report no. 94-53) pp. 12-22.

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if the problem was attacked through an educational process aimed at the family level. According to the Committee, neglect in this aspect of the programs in the past resulted in significant waste. 35/

E. INTERNATIONAL DEVELOPMENT AND FOOD ASSISTANCE ACT OF 1975 (H.R. 9005)

H.R. 9005 contained major revisions and additions to the "New Directions" language in the Foreign Assistance Act. The principal thrust of the bill was to "institutionalize, reinforce and expand" on the "New Directions" legislation initiated in 1973. 36/ According to the Senate Foreign Relations Committee, H.R. 9005 directed that U.S. development assistance resources be allocated primarily to countries and activities which most effectively involved the poor in the development process by making it possible for them to better their own lives through their own efforts. 37/

The bill contained three titles: International Disaster Assistance (Title I); Food Assistance to Poor Countries (Title II); and Development Assistance (Title III). In a departure from past foreign aid bills,

35/ See also: U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1975; Report to accompany H.R. 4592. Washington. U.S. Govt. Print. Off., 1975. (94th Congress. 1st session. Senate. Report no. 94-39) 173 p.

36/ U.S. Congress. Senate. Committee on Foreign Relations. International Development and Food Assistance Act of 1975; Report to accompany H.R. 9005. Washington. U.S. Govt. Print. Off., 1975. (94th Congress, 1st session. Senate. Report no. 94-406) p. 7. See also p. 8 of House Report 94-442 cited on next page.

37/ Ibid.

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no military aid or Security Supporting Assistance was included in the aid authorization. This separation of aid programs was based on the belief of Congress that "economic and disaster assistance should be insulated from traditional political considerations and the vicissitudes of day-to-day conduct of foreign policy." 38/ In addition, reflecting its recently acquired jurisdictional authority over the foreign aspects of food aid, the House International Relations Committee proposed several amendments to P.L. 480, the Food for Peace program. In the Senate, jurisdiction for P.L. 480 remained in the Agriculture Committee. Thus, amendments relating to P.L. 480 proposed by the International Relations Committee were referred to the Senate Agriculture Committee for action rather than the Senate Foreign Relations Committee. As a result of the assumption of jurisdiction by the International Relations Committee, many of the general "New Directions" policies were proposed for P.L. 480.

1. H.R. 9005 in the House of Representatives

As reported out by the House International Relations Committee, 39/ H.R. 9005 contained the following major "New Directions" provisions: 40/

a. Development Assistance Policy

A new policy subsection was added reaffirming the 1973 reforms in the major functional budget categories of Agriculture, Rural Development

38/ Ibid., p. 10.

39/ The House Foreign Affairs Committee was renamed the House International Relations Committee for the 94th and 95th Congresses. The Committee became the Foreign Affairs Committee again at the beginning of the 96th Congress.

40/ U.S. Congress. House. Committee on International Relations. International Development and Food Assistance Act of 1975; Report to accompany H.R. 9005 Washington: U.S. Govt. Print. Off., 1975. (94th Congress, 1st session. House. Report no. 94-442) 98 p.

and Nutrition; Population Planning and Health; and Education and Human Resource Development. The new subsection specified that AID's development programs should be implemented in ways that would substantially increase the participation of the poor. The House International Relations Committee set out what it considered to be three basic means of involving the poor in development: 1) insure their access to the economy through services and institutions at the local level; 2) increase production by creating jobs so that the abundant labor which so many poor countries had could be utilized, and the high cost capital equipment could be saved; and 3) invest in productive activities according to the geographical area to be served (i.e., focus more on smaller towns and rural areas and less on the overpopulated metropolitan areas where investment was generally concentrated). 41/

b. Functional Budget Categories

1) Food and Nutrition

The International Relations Committee authorized \$638 million for fiscal year 1976 and \$760 million for fiscal year 1977 for activities in the field of agriculture, rural development, and nutrition.

A new subsection (103c) added to the Food and Nutrition policy section of the act specified that assistance in this budget category was to be used primarily for activities designed to increase the productivity and income of the rural poor. According to the committee, the main focus was not to be on those who ate the food, but who grew it and derived the income from its production. 42/ This provision was intended to help counteract

41/ Ibid., p. 69.

42/ Ibid., p. 45.

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the common occurrence whereby government policies in developing countries discriminated against the rural poor by holding down farm prices so as to reduce food costs in the cities.

The International Relations Committee reiterated its contention that small-farm, labor-intensive agriculture was the key to greater food production.

Another new subsection (103d) added to the Food and Nutrition policy section specified that foreign currencies received from the sale of Public Law 480 commodities and owned by foreign governments were to be used whenever practicable to carry out the purposes of the Food and Nutrition budget category.

Finally, new Subsection 103e stipulated that repayments on previous economic assistance loans were to be made available for certain specific purposes. The first priority, for which the bill earmarked \$200 million, was to be a U.S. contribution to the proposed \$1.25 billion International Fund for Agricultural Development. In addition, loan reflows were to be used to help "spearhead a major agricultural research effort", and for other important activities in the fields of agriculture, rural development, and nutrition.

A new section (103A) was added to the Food and Nutrition policy portion of the Act setting forth the policy applicable to all agricultural research carried out under the bill. The new section required that agricultural research be responsive to the needs of small farmers; that it not neglect non-technological aspects of small-farm agriculture, such as economic, cultural, and social factors, appropriate institutions, and the relationships among all these elements; and that research be adapted to local conditions

through extensive field testing. Section 103A also stipulated that research results should be disseminated through institutional and other arrangements which assured that small farmers had access both to existing technology and to new technology resulting from further research.

2) Population Planning and Health

The House committee authorized \$248 million for fiscal year 1976 and \$280 million for fiscal year 1977 for population planning and health. Sixty percent of these funds were earmarked for population planning.

The policy language added paralleled concepts which had previously appeared in the legislative history of the Foreign Assistance Act of 1973. In its report, the International Relations Committee reiterated its belief in the need for an "integrated" approach to family planning. Simply supplying birth control devices was deemed insufficient. Reducing infant mortality was viewed as a necessary pre-condition for reducing birth rates. The committee advocated a program which included low-cost integrated health and population planning delivery systems, preventive health programs, and population planning programs which included education in responsible parenthood and motivational programs and which were coordinated with health, nutrition, and other programs aimed at raising the standard of living of the poor.

3) Education and Human Resources Development

\$89.2 million was authorized for fiscal year 1976 and \$101.8 million for fiscal year 1977 for activities in the field of education, human resource development, and public administration. The International Relations Committee stipulated that assistance under this section was to be used primarily for programs in both nonformal and formal education

which were designed to improve the productive skills of rural families and the urban poor; and for programs which strengthened the management capabilities of those institutions which enabled the poor to participate in development. 43/ Primary emphasis was to remain on rural areas.

4) Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

\$99 million was authorized for fiscal year 1976 and \$104 million for fiscal year 1977 for the new budget category, "Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems."

This new section combined two functional budget categories created in 1973: "Selected Development Problems," and "Selected Countries and Organizations." According to the Committee report, this merger coincided with the intention of Congress to shift of AID activities away from program lending and major infrastructure projects in fields such as transportation and power. Program emphasis for the new section included:

- a) technical assistance, particularly through U.S. private and voluntary organizations and regional and international development organizations;
- b) programs to help those poor countries particularly hard hit by high energy costs to increase energy production and conservation;
- c) research activities, to the extent that they were not carried out under the three primary functional budget categories;
- d) disaster reconstruction;
- e) special development problems, particularly in Africa; and
- f) urban development activities directly related to helping the urban poor in slum areas of large cities.

43/ Ibid. p. 51.

5) Intermediate Technology

H.R. 9005 added a new section (107) to the Foreign Assistance Act which permitted a total of up to \$20 million of the funds available under the food and nutrition, population planning and health, and education and human resources budgetary categories to be used for grants to support an expanded and centralized private effort in the field of intermediate technology over the three year period covering fiscal years 1976-1978. (Note that no additional appropriations were authorized by this section). Elaborating on the 1973 legislation, the International Relations Committee stated that if the poor were to participate in the development process, "they must have access to the tools and machines that are suited to labor-intensive production methods and fit their small farms, small businesses, and small incomes. They must have access to technology which is neither so primitive that it offers no escape from low production and low income nor so highly sophisticated that it is out of reach for poor people and ultimately uneconomic for poor countries - in short, intermediate technology." 44/

Specific intermediate technology objectives for AID to pursue included: 1) to study proposals for an Institute of Intermediate Technology; 2) to promote the development and dissemination of technologies particularly pertinent to agriculture and rural development, small business enterprises, and energy; 3) to identify, design, and adapt from existing designs, appropriately scaled, labor-intensive technology, and policies and institutions directly related to its use; 4) to formulate policies and techniques to facilitate the organization of new small businesses; 5) to engage in field

44/ Ibid., p. 54.

testing of intermediate technology; 6) to establish and maintain an information center for the collection and dissemination of information on intermediate technology; and 7) to support expansion and coordination of developing country efforts in this field.

c. Other Pertinent Provisions in the House Version of H.R. 9005

1) The bill permitted the President to waive the requirement that the receiving country must put up 25 percent of the cost of each project or activity for the "relatively least developed" countries as defined by the United Nations. The Sahelian African countries were cited as examples of countries having extreme difficulty covering 25 percent of project costs.

2) A section was included in the bill requiring that high priority be given to developing cooperatives in LDCs, and earmarking \$20 million over the two and one half year period comprising fiscal years 1976 and 1977 and the interim quarter to be used for technical assistance for that purpose. The House International Relations Committee stated that strong cooperatives constituted one of the most important aspects of broad-based economic development. The committee pointed to the lack of balance between geographic regions in the funding of cooperatives in AID's programs, and urged that AID "respond to opportunities which exist for strengthening cooperatives in countries which are not now receiving assistance for that purpose." 45/

3) A new section was added that provided that any country grossly violating human rights would be refused development assistance unless there was proof that such assistance was benefiting the poor.

45/ Ibid., p. 55-56.

4) The bill added a new title, "Title XII: Famine Prevention and Freedom from Hunger" to the Foreign Assistance Act of 1961. This provision called for an increased role for U.S. land-grant colleges and other eligible universities in program-related agricultural institution development and research. More participation from these universities in international efforts to expand the world food production via more scientific research was also requested. The teaching, research, and extension work was to focus on producers' needs and activities adapted to local circumstances within the developing countries. The President was to establish a permanent Board for International Food and Agricultural Development to assist in the administration of such programs.

5) A section was added requiring that development aid programs authorized under the functional budget categories be administered so as to give particular attention to integration of women into the national economies of foreign countries.

d. Food Aid to Poor Countries (Title II)

Title II of H.R. 9005 consisted of amendments to the P.L. 480, the Food for Peace Program. The intent of Title II was: 1) to strengthen the humanitarian and self-help development role of American food aid to the least developed countries by amending the Agricultural Trade, Development, and Assistance Act of 1954 (P.L. 480), the authority for the Food-for-Peace program; and 2) to provide closer integration between the food program and the development assistance program. 46/

46/ Ibid., p. 16-19.

Included in Title II of the House version of H.R. 9005 were the following pertinent amendments:

1) A section adding policy language to P.L. 480 specifying that the President was to a) give priority consideration to providing the maximum feasible volume of food to those countries most seriously affected by food shortages; b) urge other donor countries to increase their participation in addressing the food shortages in the developing countries; and c) relate U.S. assistance to the efforts of the aid-receiving countries to increase their own agricultural production, with emphasis on labor-intensive small-farm agriculture.

2) A section providing that not more than 30 percent of food aid under P.L. 480 Title I was to be allocated to countries other than those most seriously affected by the food shortages.

3) Policy language stating that the United States was to emphasize the use of foreign currency proceeds for purposes which directly improved the lives of the poorest people in the receiving countries and for programs of agricultural development, rural development, nutrition, and population planning in those countries which had undertaken self-help measures.

4) An additional amendment urging the President to maintain a significant U.S. contribution to the World Food Conference goal of ten million tons of food assistance annually to the world's needy nations. The President was encouraged to seek international agreement for a system of food reserves, as well.

H.R. 9005 was passed by the House on September 10, 1975, with no major changes in the "New Directions" provisions that had been reported out by the International Relations Committee.

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2. The Senate and H.R. 9005

The Senate Foreign Relations Committee ordered its version of H.R. 9005 reported on October 1, 1975. ^{47/} The major changes in the "New Directions" language made by the committee were as follows:

a. Functional Budget Categories

1) Food and Nutrition

\$608 million was authorized for fiscal year 1976 for food and nutrition, and \$735 million was authorized for fiscal year 1977.

The Foreign Relations Committee's Food and Nutrition policy language was very similar to that of the House Committee. However, the Senate Committee specified that assistance provided under the Food and Nutrition budget category be used for activities which were designed to assist the rural poor. These included: the creation and strengthening of local institutions linked to the regional and national level; organization of a system of financial institutions which would provide both savings and credit services to the poor; stimulation of small, labor-intensive enterprises in rural towns; improvement of marketing facilities and systems; expansion of local or small-scale rural infrastructure and utilities such as farm-to-market roads, land improvement, energy, and storage facilities; establishment of more equitable and more secure land tenure arrangements; and creation and strengthening of systems to provide other services and supplies needed by farmers, such as extension, research, training

^{47/} U.S. Congress. Senate. Committee on Foreign Relations. International Development and Food Assistance Act of 1975; Report to accompany H.R. 9005. Washington. U.S. Govt. Print. Off., 1975. (94th Congress. 1st session. Senate. Report no. 94-406) 80 p.

fertilizer, water, and improved seed, in ways which assured access to them by small farmers. ^{48/}

The House language earmarking \$200 million from aid loan repayment receipts for the International Fund for Agricultural Development was modified to require appropriate participation by other donors as a condition for U.S. participation. The Senate Foreign Relations Committee also included the drought-stricken areas of Africa as potential recipients of such receipts.

2) Population Planning and Health

\$243 million for fiscal year 1976 and \$275 million for fiscal year 1977 were authorized for population planning and health.

The Senate committee stated that the 67 percent of these funds to be used for population planning could go either to separate population programs or to population programs carried out as an element of health programs. As did the International Relations Committee, the Foreign Relations Committee endorsed an integrated approach to family planning and adopted most of the House committee's policy language.

b. Other Pertinent Senate Changes from the House Version of H.R. 9005

1) The section stipulating that any country grossly violating human rights would be refused development assistance was deleted. Its place was taken by a provision that stated that should either house of Congress believe that basic human rights were being denied in an aid recipient country, then AID would be responsible for informing the Senate Foreign Relations Committee and the House International Relations Committee how the proposed assistance could be provided in a manner which

^{48/} Ibid., p. 28.

would benefit the poor without contributing to the perpetuation of human rights violations.

2) The Senate Foreign Relations Committee added a new section requesting the President to establish criteria to measure the commitment and progress of recipient countries in meeting development objectives. The intent was to enable the U.S. development assistance programs to be increasingly focused on those countries "which demonstrated the most dedication and discipline in mobilizing their development efforts." ^{49/} The criteria were to include the efforts of countries: to carry out land reforms and cooperative arrangements; to achieve a greater degree of self-sufficiency in food production; and to reduce infant mortality.

c. Food Aid to Poor Countries (Title II)

While, as noted above, the Senate Agriculture Committee had primary jurisdiction over P.L. 480 matters, initial referral of all of H.R. 9005 was to the Foreign Relations Committee. The Foreign Relations Committee revised the allocation of food commodities under Title I of P.L. 480 so that only 20% was to be available for countries other than those most seriously affected by the food shortages. The House International Relations Committee had allocated 30 percent to these countries for 1975.

^{49/} Ibid., p. 36.

d. Creation of a Senate Subcommittee on Foreign Assistance

In its report, the Foreign Relations Committee stated that "Congress may have reached the point where what is needed to make foreign assistance more effective is not more legislation, or tighter restrictions on the Executive Branch, but better congressional oversight of existing laws." 50/ Early in the year, the Committee had created a subcommittee whose primary responsibility during fiscal years 1976 and 1977 was to oversee the foreign aid program both in Washington and abroad. In addition, the subcommittee was to provide a focal point for both evaluation of the foreign assistance programs and the definition of policy guidelines within which the committee expected AID to conduct its program under the "New Directions." The Committee report stated that "our subcommittee will be rigorous and unflinching in its efforts to analyze the impact of the new legislation, the performance of its administrators and the efforts of recipient governments." 51/ Senator Humphrey was designated the subcommittee's chairman.

e. Senate Agriculture Committee Action

On October 2, 1975, the bill was referred to the Senate Committee on Agriculture and Forestry where two segments of the bill were reviewed: 1) Title II dealing with P.L. 480; and 2) the new section creating a Title XII "Famine Prevention and Freedom from Hunger," in the Foreign Assistance Act. Among the changes made by the Agriculture Committee in H.R. 9005

50/ Ibid., p. 7.

51/ Ibid.

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as reported 53/ by the Foreign Relations Committee were the following:

1) The policy language was deleted which specified that the President give priority consideration to providing food to countries that emphasized labor-intensive, small-farm agriculture.

2) Food aid-receiving countries would be required to improve their facilities for transporting, storing, and distributing food commodities.

3) The restrictions on P.L. 480 assistance to the most seriously affected countries were to be for one year rather than permanently, and the percent set aside was reduced from 80 percent to 70 percent. In addition, the President, rather than the United Nations, was to determine which countries would be categorized as "most seriously affected".

4) The provisions of H.R. 9005 creating a new Title XII were changed to a new title of P.L. 480 rather than of the Foreign Assistance Act.

f. Senate Floor Action

The Committee on Agriculture reported H.R. 9005 with its revisions on October 22, 1975. The Senate passed H.R. 9005 on November 5, 1975 by a vote of 54 to 41. "New Directions"-related amendments that were adopted on the floor were as follows:

1) An amendment by Senator Humphrey to initiate proposals for the establishment of an Intermediate Technology Institute as part of AID.

2) An amendment which raised P.L. 480 assistance to the most seriously affected countries from 70 percent to 80 percent of total Title I

53/ U.S. Congress. Senate. Committee on Agriculture and Forestry. International Development and Food Assistance Act of 1975; Report to accompany H.R. 9005. Washington. U.S. Govt. Print. Off., 1975. (94th Congress. 1st session. Senate. Report no. 94-434) 90 p.

sales and stipulated a maximum of \$250 per capita gross national product as a guideline for assistance eligibility.

3. Conference Report - H.R. 9005

After passing the Senate, H.R. 9005 went to conference for reconciliation of differences. Because most of the "New Directions" policy provisions of the Senate bill were the same as, or similar to, House provisions, there were not many areas of conflict in policy which needed resolution by the Conference Committee. The major "New Directions" reconciliations were as follows: 54/

a. Development Assistance Policy Reconciliations

1) AID was required to prepare a detailed proposal for the coordination of private efforts in the field of intermediate technology. The proposal was to be transmitted to the Senate Foreign Relations Committee and the House International Relations Committee no later than March 31, 1976.

2) As stipulated in the House bill, the President could waive the requirement that an aid-receiving relatively least developed country put up 25 percent of a project cost.

3) The conference committee revised the human rights provision by stating that any country grossly violating human rights would be refused development assistance unless: 1) there was proof that such assistance was benefiting the poor; and 2) neither House disapproved.

54/ U.S. Congress. Conference Committees, 1975. International Development and Food Assistance Act of 1975; Conference report to accompany H.R. 9005. Washington. U.S. Govt. Print. Off., 1975. (94th Congress. 1st session. House. Report no. 94-691) 41 p.

4) The conference report contained a section modifying the Senate's measurement criteria provision. The criteria to be established to measure the recipient countries' development were to include: 1) increasing agricultural productivity per unit of land through small-farm, labor-intensive agriculture; 2) reducing infant mortality; 3) controlling population growth; 4) promoting greater equality of income distribution, including measures such as more progressive taxation and more equitable returns to small farmers; and 5) reducing rates of unemployment and under-employment. While the Senate Foreign Relations Committee was more explicit in its support for certain specific measures of land reform, the conference committee wished "to stress that more equitable distribution of land tenure, more efficient use of land, and encouragement of operator-ownership of farms are among the important objectives of development" sought by Congress in the Foreign Assistance Act. 55/

b. Food Aid to Poor Countries (Title II)

1) Policy language was agreed upon which related the availability of U.S. food assistance to the receiving countries' emphasis on the development of small, family farm agriculture and improved facilities for transportation, storage, and distribution of food commodities. House language encouraging "labor intensive" farming was deleted.

2) Not less than 75 percent of the food aid provided under Title I of P.L. 480 was to be allocated to those countries with a per capita GNP of \$300 or less.

55/ Ibid., p. 33.

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Amounts Authorized in H.R. 9005 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>		<u>Senate</u>		<u>Conference</u>	
	1976 <u>a/</u>	1977	1976	1977	1976	1977
Food and Nutrition	638	760	608	735	618	745
Population Planning and Health	248	280	243	275	243	275
Education and Human Resources Develop.	89	101	89	101	89	101
Technical Assistance, etc.	<u>99</u>	<u>104</u>	<u>99</u>	<u>104</u>	<u>99</u>	<u>104</u>
Total	1,075	1,246	1,040	1,216	1,050	1,226

a/ fiscal years

The conference committee decided upon a total authorization for all provisions of H.R. 9005 of \$1.6 billion for fiscal year 1976 and \$1.5 billion for fiscal year 1977.

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F. FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATION ACT FOR FY 1976 AND THE THREE MONTH TRANSITION QUARTER THROUGH SEPT. 1976 (H.R. 12203)

The final FY 1976 (July 1, 1975 to June 30, 1976) foreign aid appropriations bill totaled \$5.2 billion for all titles. An additional \$759 million was appropriated for the three month transition period to the start of the new fiscal year which was to begin October 1, 1976.

1. FY 1976 + T Appropriations in H.R. 12203 for "New Directions" Programs a/
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	609	576	539
Population Planning and Health	225	179	179
Education and Human Resource Develop.	102	69	69
Technical Assistance, Energy, etc.	90	68	68
Total	<u>1,926</u>	<u>894</u>	<u>857</u>

a/ figures include appropriations for FY 1976 plus a three month transition quarter (July - September, 1976).

2. Other Pertinent Provisions

a. Food and Nutrition

In its report, the Senate Appropriations Committee stated that two basic structural imbalances existed in connection with AID's food and nutrition program that needed rectification: the food and nutrition program had given too much emphasis to Latin America and not enough to Africa; and there was an imbalance between the food and nutrition program

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and population planning. 56/ It was recommended that increasing emphasis should be focused on the demand side of the world food problem (i.e., to the world's increasing population problem) in addition to the supply side. 57/

b. Intermediate Technology

The House Appropriations Committee indicated that it expected AID to move rapidly to implement programs using intermediate technology such as animal-drawn plows and seeders, roto-tillers, simple grain storage bins, small scale irrigation works, hand-operated irrigation pumps, manually-operated corn and peanut shellers, and intermediate road construction equipment (e.g., ox-carts). In other words, technology that was appropriate to the scarcity of capital and abundance of labor. 58/ According to Representative Clarence Long, Chairman of the House Appropriations Foreign Operations Subcommittee credit institutions must be created to channel large numbers of small loans to the poor peasants so that they might be able to buy new machines. 59/ Representative Long stated that a \$100 loan could be an effective upper limit; that equipment at this level of simplicity already existed in countries such as Senegal (animal-drawn agricultural implements)

56/ U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1976; Report to accompany H.R. 12203. Washington. U.S. Govt. Print. Off. 1976. (94th Congress, 2d session. Senate. Report no. 94-704) 192 p.

57/ Ibid., p. 46.

58/ U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1976; Report to accompany H.R. 12203. Washington. U.S. Govt. Print. Off. 1976. (94th Congress, 2d session. House. Report no. 94-857) pp. 14-15.

59/ Ibid., additional views of Clarence D. Long. pp. 61-63.

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and Bangladesh (manually operated irrigation pumps). Long contended that a coordinated policy to disseminate "light capital" technology was needed between foreign aid agencies as well as coordination in the initiation of pilot "light capital" projects.

G. FISCAL YEAR 1977 FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATION ACT (H.R. 14260) 60/

The format and statements in H.R. 14260 paralleled closely the previous year's appropriations bill. The main differences lay in the amounts appropriated. \$5.1 billion was the total amount appropriated for FY 1977 for all titles in the bill.

1. FY 1977 Appropriations in H.R. 14260 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	475	535	505
Population Planning and Health	200	228	214
Education and Human Resources Develop.	70	70	70
Technical Assistance, etc.	70	64	67
Total	<u>815</u>	<u>897</u>	<u>856</u>

60/ The International Development and Food Assistance Act of 1975 authorized economic aid for two fiscal years: FY 1976 and 1977.

2. Other Pertinent Provisions

a. Food and Nutrition

The members of the Senate Appropriations Committee were "wary" of AID's costly rural roads projects. 61/ The committee felt such undertakings were largely a local responsibility, and that any external assistance that proved necessary should be provided by multinational institutions such as international development banks.

b. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

The Conference Committee report indicated that it was felt that a relationship between AID and the private voluntary organizations (PVOs) financially heavily dependent upon AID was deleterious to all interests involved. 62/ The conferees directed AID to establish funding guidelines which would place a ceiling on U.S. support grants to any private voluntary organization at 50 percent of the annual cash requirement for overhead and personnel compensation costs of the organization. In addition, the committee directed the Agency to prepare a registry, no later than March 1, 1977, of private voluntary organizations eligible for U.S. government assistance. The committee felt that any private voluntary organization should be ineligible for inclusion in the registry, and

61/ U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1977; Report to accompany H.R. 14260. Washington. U.S. Govt. Print. Off., 1976. (94th Congress, 2d session. Senate. Report no. 94-1009) p. 36.

62/ U.S. Congress. Conference Committees, 1976. Making Appropriations for Foreign Assistance and Related Programs for the Fiscal Year ending September 30, 1977; Conference Report to accompany H.R. 14260. Washington. U.S. Govt. Print. Off., 1976. (94th Congress, 2d session. House. Report no. 94-1642) pp. 5-6.

hence ineligible for U.S. funding, if it failed to disclose to AID its financial statements together with its current budget.

The Senate Appropriations Committee urged a pilot project be initiated for FY 1977 for the establishment of an Indigenous Technical Assistance Corporation under the sponsorship of universities in selected countries in Latin America and the Middle East.

H. INTERNATIONAL DEVELOPMENT AND FOOD ASSISTANCE ACT OF 1977 (H.R. 6714)

The principal purposes of H.R. 6714 were to authorize development assistance programs for FY 1978 and to further amend P.L. 480. \$1.65 billion was the total amount authorized for all titles. Following are the major "New Directions" related provisions of the bill.

I. Functional Budget Categories

a. Food and Nutrition

\$580 million was authorized for FY 1978 for food and nutrition.

In addition to reiterating much of the policy language of recent foreign assistance bills, the Foreign Relations Committee urged AID to provide more assistance for the purpose of reducing harvest losses of food, and expressed the desire that the executive branch use the influence of the U.S. Government to assure the effective use of International Fund for Agricultural Development (IFAD) funds through existing organizations. 63/

63/ U.S. Congress. Senate. Committee on Foreign Relations. International Development Assistance Act of 1977; Report to accompany S. 1520. Washington. U.S. Govt. Print. Off., 1977. (95th Congress, 1st session. Senate. Report no. 95-161) pp. 19-20.

b. Population Planning and Health

The population planning and health category was separated into two distinct subsections. \$167 million was authorized for population planning. \$107 million was authorized for health.

The Conference Committee stipulated that particular attention be given to the interrelationship between population growth, development growth, and overall improvement in living standards, and to the impact of all programs, projects, and activities on population growth. 64/

c. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

\$105 million was authorized for this omnibus category for fiscal 1978.

\$18 million was authorized to carry out cooperative programs with developing countries in renewable and unconventional energy production and conservation. Particular emphasis was to be placed on small-scale, decentralized, renewable energy sources for rural areas. The Senate Foreign Relations Committee, elaborating on potential undertakings, included programs involving identification of research and development priorities, market research, field testing, dissemination of information, and pilot projects in photovoltaic applications, wind applications, biomass projects, solar-thermal applications, and simple total energy systems. 65/

64/ U.S. Congress. Conference Committees, 1977. International Development and Food Assistance Act of 1977; Report to accompany H.R. 6714. Washington. U.S. Govt. Print. Off., 1977. (95th Congress, 1st session. House. Report no. 95-501) pp. 27-28.

65/ Senate Foreign Relations Committee. Report no. 95-161. p. 31.

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The Conference Committee requested the President to review the options for implementing these energy technologies and specifically the feasibility of working with a nonprofit International Energy Institute on this matter. 66/ The President was to report his recommendations to Congress by January 1, 1978.

2. Other Pertinent Provisions

a) The 1975 development assistance assessment language was modified.

b) A new section was added that authorized the President to make development assistance available on a grant basis, to the maximum extent consistent with U.S. development objectives, to countries on the U.N. Conference on Trade and Development (UNCTAD) list of (29) relatively least development countries.

c) Language was added to the existing "Development and Use of Cooperatives" section to specify the types of assistance (technical and capital) these funds were to be used for. The Conference Committee urged the executive branch to include representatives of cooperative development organizations as advisors to the Board for International Food and Agricultural Development. 67/

d) The existing "Integration of Women in National Economies" section was slightly revised. The Conference Committee stipulated that the President, in weighing potential U.S. contributions to recipients among international organizations, must consider the progress of those

66/ Conference Committee Report no. 95-501. p. 31.

67/ Ibid., p. 28.

international organizations in developing policies which encouraged the integration of women into the recipient economies. 68/

e) The Conference Committee encouraged the President to: 1) devise and carry out in partnership with developing nations a strategy for integrated programs of nutrition and health improvement for mothers and children, including breast feeding; and ii) provide technical, financial, and material support to individuals or groups at the local level for such purposes. 69/ In its report, the House International Relations Committee had stated that convincing evidence existed that many children had died or had been permanently damaged by infant formula prepared in the LDCs. 70/ Hence, increased emphasis on breast feeding was deemed desirable.

f) A section was added to the Foreign Assistance Act stipulating that assistance should be provided in developing and strengthening the capacity of LDCs to protect and manage their environment and natural resources. Special efforts were to be made to restore the "land, vegetation, water, wildlife, and other resources upon which depend economic growth and human well-being, especially that of the poor." 71/

68/ Ibid., pp. 28-29.

69/ Ibid., p. 30.

70/ U.S. Congress. House. Committee on International Relations. International Development and Food Assistance Act of 1977; Report to accompany H.R. 6714. Washington. U.S. Govt. Print. Off., 1977. (95th Congress, 1st session. House. Report no. 95-240) p. 32.

71/ Conference Report no. 95-501. pp. 30-31.

Specific potential projects as outlined by both authorizing committees included: crop rotation programs, reforestation, watershed protection, wildlife habitat preservation, and drainage projects to control salinization and waterlogging caused by irrigation.

g) A provision, originally proposed on the floor by Senator Hart, was added further expanding the coordination role of the Development Coordination Committee. The Development Coordination Committee was to: i) implement studies on developmental problems; ii) devise implementation strategies on developmental problems appropriate to each relevant department or agency; iii) monitor and evaluate the results of the development activities of each department or agency; and iv) arrange for the exchange of information and studies between agencies and departments. 72/

3. Public Law 480 - Food for Peace

a. Food for Development

1) A "Food for Development Program" title was added, giving the President the authority to forgive repayments from a certain percentage of P.L. 480 sales if the proceeds from the sales were used for specific "New Directions" type development programs (agricultural development, rural development, nutrition, health services, population planning, and farmer-to-farmer programs) that would not otherwise have been undertaken. The bill stipulated that recipient countries submit multi-year proposals for the use of commodities provided under the program.

72/ Conference Report no. 95-501. p. 36.

b. Storage in Recipient Countries

2) H.R. 6714 required the Secretary of Agriculture to determine that adequate storage facilities were available in recipient countries before P.L. 480 commodities were provided. The Conference Committee intended that P.L. 480 commodity shipments not be substantial disincentives to production in the developing country. 73/

4. Senate Foreign Relations Committee Comments on North-South Issues

According to the Senate Foreign Relations Committee, the U.S. needed to view the North-South issues in a new perspective. 74/ Given increasing global interdependence, the committee felt that there were no clear cut winners and losers from specific policies. Individual country interests were increasingly becoming intertwined with those of other countries. In addition, the committee maintained that bilateral aid was no longer the centerpiece of developed country policy towards the developing world. It remained a crucial element but only in the context of a broader development strategy. Its effectiveness was contingent on how carefully it was targeted.

The Foreign Relations Committee stated that different types of developing countries warranted different development policies. In the Committee's view, the developing world consisted of two basic groups: the Third World countries and the least developed Fourth World countries. Emphasis on concessionary aid and bilateral development assistance was needed to aid countries in the latter category whereas

73/ Ibid., p. 43.

74/ Senate Foreign Relations Committee no. 95-161. pp. 6-14.

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certain New International Economic Order proposals (such as commodity agreements and technology transfers) and private lending institutions would be of primary benefit to the more prosperous Third World countries.

FY 1978 Authorizations in H.R. 6714 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	613	550	580
Population Planning	181	160	167
Health	105	109	107
Education and Human Resources Develop.	84	84	84
Technical Assistance, etc.	110	100	105
Total	<u>1,095</u>	<u>1,003</u>	<u>1,044</u>

I. FISCAL YEAR 1978 FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATION
ACT (H.R. 7797)

H.R. 7797 appropriated \$6.8 billion for all titles and retained the same format of the previous year's appropriations bill.

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1. FY 1978 Appropriations in H.R. 7797 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	535	515	515
Population Planning	160	155	155
Health	100	95	95
Education and Human Resources Develop.	80	75	76
Technical Assistance, etc.	95	90	90
Total	<u>970</u>	<u>930</u>	<u>931</u>

2. Other Pertinent Provisions

a. Food and Nutrition

The Senate Appropriations Committee reiterated its concern that AID's use of funds for food and nutrition activities was still too heavily oriented towards infrastructure projects. The Committee did acknowledge, however, that funding farm-to-market road projects might be deemed acceptable in certain cases. 75/

75/ U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriation Bill, 1978; Report to accompany H.R. 7797. Washington. U.S. Govt. Print. Off., 1977. (95th Congress, 1st session. Senate. Report no. 95-352) pp. 34-35.

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b. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Assistance

The House Appropriations Committee requested AID to examine the feasibility of working with District of Columbia universities (who in turn would work with selected universities in Latin America) for the purpose of supporting the development of indigenous technical assistance centers in Latin America. The Appropriations Committee reiterated its concerns over the high costs of American technicians and expected AID to increase its assistance to local training institutions. 76/

The House Appropriations Committee again stressed the importance of "light capital" technology in development assistance. 77/ The committee applauded the creation of Appropriate Technology International (ATI), an independent, private nonprofit organization created to carry out the intermediate technology program mandated by Congress. The Committee desired ATI to retain its flexibility (its ability to respond to grant requests within sixty days) and its autonomy. The Committee stated that its expansion should continue and emphasis on indigenous development of technology should continue. In addition, the Development Coordination Committee was to play an important coordinating role with respect to "light capital" technologies.

76/ U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Programs Appropriations Bill, 1978; Report to accompany H.R. 7797. Washington. U.S. Govt. Print. Off., 1977. (95th Congress. 1st session. House. Report no. 95-417) p. 17.

77/ Ibid., p. 14.

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J. INTERNATIONAL DEVELOPMENT AND FOOD ASSISTANCE ACT OF 1978
(H.R. 12222)

H.R. 12222 contained amendments to the authorizations for economic assistance programs, P.L. 480, and provisions intended to improve the coordination and administration of U.S. development-related policies and programs. The total authorization for all titles was \$1.8 billion.

L. Development Assistance Policy

Much of the policy statement updated, revised, and consolidated existing language. The "New Directions" program statements were largely re-packaged from previous foreign aid bills.

H.R. 12222 stipulated that U.S. development cooperation policy should emphasize four principal goals: 1) the alleviation of the worst physical manifestations of poverty among the world's poor majority; 2) the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits; 3) the encouragement of development processes in which individual civil and economic rights were respected and enhanced; and 4) the integration of the developing countries into an open and equitable international economic system. 78/

The bilateral development assistance authorized by the Foreign Assistance Act, as amended, was to be programmed in accordance with twelve guiding principles including:

78/ U.S. Congress. Conference Committees, 1978. International Development and Food Assistance Act of 1978; Conference Report to accompany H.R. 12222. Washington. U.S. Govt. Print. Off., 1978. (95th Congress. 2d session. House. Report no. 95-1545) p. 2.

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a) Development was to be primarily the responsibility of the people in the developing countries themselves. U.S. aid should support self-help efforts.

b) Priority should be given to development programs initiated by the developing country which directly improved the lives of the poorest people and their capacity to participate in their countries.

c) Priority should be given to development programs in countries which would make the most effective use of such assistance to help satisfy the basic human needs of the poor. The earlier criteria for assessing progress toward meeting the objectives and goals of the act were reiterated.

d) The critical problems in the functional budget categories (Food and Nutrition, etc.) should be a primary focus for U.S. assistance.

e) U.S. cooperation in development should be carried out to the maximum extent possible through the non-governmental sector.

f) U.S. bilateral development assistance should be concentrated on projects which did not involve large-scale capital transfers. 79/

A new section was added to provide a clearer and broader policy direction with respect to the private voluntary organizations (PVOs). According to the Senate Foreign Relations Committee, PVOs could play an integral part in U.S. development assistance programs by effectively implementing equity-oriented development strategies at the local level. 80/ Their

79/ Ibid., pp. 3-5.

80/ U.S. Congress. Senate. Committee on Foreign Relations. International Development Assistance Act of 1978; Report to accompany S. 3074. Washington. U.S. Govt. Print. Off., 1978. (95th Congress, 2d session. Senate. Report no. 95-840) pp. 8-9.

resources should be supplemented with public funding, though not at the expense of the organizations' private, independent nature.

2. Functional Budget Categories

a. Agriculture, Rural Development, and Nutrition

\$665.2 million was authorized for this section. The title of the section was amended from "Food and Nutrition" to more accurately reflect the range of activities authorized. The changes in policy language were slight; for example, forestry and soil conservation was added to the existing list of services and supplies needed by farmers.

b. Population Planning and Health

\$224.7 million was authorized to carry out population programs. \$148.5 million was authorized for programs relating to health and disease prevention.

c. Education and Human Resources Development

\$109 million was authorized for the purposes of this section. No new policy language was added.

d. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

\$126.2 million was earmarked for this section. AID was directed to coordinate with the Department of Energy the planning and implementation of energy programs related to development assistance.

e. Other Pertinent Provisions

a) Not less than \$1.5 million was to be used for studies to identify the major problems relating to the environment and natural resources in LDCs and the institutional capabilities of LDCs to deal with these problems. The conference committee also urged AID to ensure that each

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of its missions had personnel knowledgeable about AID's energy programs. 81/

b) A new section was added to deal with what the Foreign Relations Committee called the Relatively Least Developed Countries (RLDCs). 82/ The RLDCs were to be determined on the basis of criteria comparable to those used for the U.N. General Assembly list of least developed countries - countries characterized by extreme poverty, very limited infrastructure and limited administrative capacity to implement a basic human needs growth strategy.

The new section provided that aid to RLDCs be on a grant basis to the maximum extent consistent with the attainment of U.S. development objectives. Special local currency accounts were to be established to receive repayments from RLDCs, to be used by RLDCs for development purposes. The new section also indicated that different policies concerning waivers, grants, and concessional loans may be necessary for the RLDCs than for the more advanced developing countries.

c) H.R. 12222 directed the President to institute a strengthened system of coordination of U.S. economic policies which impacted on developing nations and required that he submit a report on implementation of these provisions by February 1, 1979.

The Conference Committee urged the President to consider establishing an International Development Cooperation Administration which

81/ Conference Committee Report no. 95-1545. p. 36.

82/ Senate Foreign Relations Committee Report no. 95-840. pp. 28-30.

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would supersede AID and have primary responsibility within the U.S. government for coordination of international development-related activities. 83/

FY 1979 Authorizations in H.R. 12222 for "New Directions Programs"
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Agriculture, Rural Development and Nutrition	673	665	665
Population Planning	225	224	224
Health	148	144	148
Education and Human Resources Develop.	109	98	109
Technical Assistance, etc.	126	126	126
Total	<u>1,282</u>	<u>1,258</u>	<u>1,273</u>

K. FISCAL YEAR 1979 FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATION ACT (H.R. 12931)

The appropriations bill, totaling \$7.3 billion, included Foreign Assistance Act activities, foreign military credit sales, related foreign assistance (such as ACTION), and Export-Import Bank expenditures.

83/ Conference Committee Report no. 95-1545. p. 42. See also U.S. Congress. House. Committee on International Relations. International Development and Food Assistance Act of 1978; Report to accompany H.R. 12222. Washington, U.S. Govt Print. Off., 1978. (95th Congress, 2d session. House. Report no. 95-1087) pp. 44-45.

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1. FY 1979 Appropriations in H.R. 12931 for "New Directions" Programs
(in millions of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Agriculture, Rural Development, and Nutrition	610	605	605
Population Planning	195	180	185
Health	135	125	130
Education and Human Resource Develop.	100	94	97
Technical Assistance, etc.	120	114	115
Total	<u>1,160</u>	<u>1,118</u>	<u>1,132</u>

2. Other Pertinent Provisions

Though there were no policy changes proposed, the House Appropriations Committee advocated in its report, increased usage of light capital technology, renewable and unconventional energy technologies, a strong AID evaluation program, self-help projects by aid recipients, and the development of simple, low-cost delivery systems for technical assistance. 84/

The Senate Appropriations Committee indicated its concern that some of the language changes made by the authorizing Committees in H.R. 12222 might be used to justify larger scale infrastructure projects, that greater emphasis be placed on field activities rather

84/ U.S. Congress. House. Committee on Appropriations. Foreign Assistance and Related Programs Appropriations Act, 1979; Report to accompany H.R. 12931. Washington. U.S. Govt. Print. Off., 1978. (95th Congress, 2d session. House. Report no. 95-1250) pp. 13, 15, and 18.

than research on population control and that AID education funds should be focused on the illiterate and untutored poor. 85/

L. INTERNATIONAL DEVELOPMENT COOPERATION ACT OF 1979 (H.R. 3324)

Authorization for fiscal year 1980 economic assistance programs was contained in H.R. 3324 together with funds for the Peace Corps and amendments to P.L. 480. The measure also provided for the establishment of the Institute for Scientific and Technological Cooperation which would assume AID's responsibility for development-related research and promote cooperative research efforts with developing nations. The total authorization for all programs in H.R. 3324 was \$1.979 billion.

1. Development Assistance Policy

Although no new major policy statements were enacted in H.R. 3324, the principle of "New Directions" programs of self-help assistance to poor nations was continued in the bill. Other than making changes to the energy functional category, Congress focused on deficiencies it found in the implementation of past initiatives.

Both the House Foreign Affairs and Senate Foreign Relations Committees expressed concern over the ineffective utilization of U.S. private and voluntary organizations (PVOs) by AID. The Senate Committee reemphasized its position expressed in 1978 concerning the potential for PVOs to play a major role in U.S. development assistance programs. The House Foreign Affairs Committee stated its intention to thoroughly review AID's relationship with PVOs and requested a report from the President by January 1, 1980 on the

85/ U.S. Congress. Senate. Committee on Appropriations. Foreign Assistance and Related Programs Appropriations Bill, 1979; Report to accompany H.R. 12931. Washington. U.S. Govt. Print. Off., 1978. (95th Congress. 2d session. Senate. Report no. 95-1194) pp. 28, 33, and 40.

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feasibility of creating a unit within IDCA "to finance and provide support functions for the development-related activities" of PVOs and cooperatives. 86/

The Senate Committee on Foreign Relations also built on past statements which supported the role of cooperatives in development programs. Committee members were concerned over reports that AID considered cooperatives to be "outside the mainstream of U.S. development assistance efforts." Therefore, the Committee called for the expansion of cooperative development activities through a variety of existing and new channels. The Committee also emphasized the need for these groups to remain independent from AID and called on the Agency to reduce bureaucratic burdens placed on cooperatives. It had also been reported to the Committee that AID was considering the termination of support for cooperatives in "middle income" countries, even those in which large sectors of poor people continued to exist. The Committee expressed its support for continued assistance to some of these nations, particularly where it affected the urban poor. 87/

For each of the five functional bilateral development assistance accounts, the Foreign Relations Committee authorized funding levels substantially below those proposed by the Administration and recommended by the House. This not only reflected the Committee's recognition of attempts to trim the Federal budget, but also its desire to channel more

85/ U.S. Congress. House. Committee on Foreign Affairs. International Development Cooperation Act of 1979; Report to accompany H.R. 3324. Washington. U.S. Govt. Print. Off., 1979. (96th Congress, 1st session. House. Report no. 96-79) pp. 11-12.

87/ U.S. Congress. Senate. Committee on Foreign Relations. The International Development Assistance Act of 1979; Report to accompany S. 588. Washington. U.S. Govt. Print. Off., 1979. (96th Congress, 1st session. Senate. Report no. 96-137) pp. 7-9.

aid through multilateral agencies. 88/ The Committee, however, emphasized that these cuts in the bilateral program should come out of aid to middle income nations since these countries had better opportunities to seek support from the multilateral development banks. It was the Committee's intent that these reductions should not reduce assistance to the poorest nations.

2. Functional Budget Categories

a. Agriculture, Rural Development, and Nutrition

H.R. 3324 authorized \$659 million for this category. New language was added which concerned the increasing problems brought on by deforestation in developing countries. Programs authorized included community woodlots, agroforestry, reforestation, protection of watershed forests, and improved forest management. Developing countries were encouraged to increase their national food security. Although Congress did not specifically earmark how the money was to be spent, it was the intent that it be contributed to national, regional, and international food corps program.

The House Foreign Affairs Committee also noted the upcoming FAO Conference on Agrarian Reform and Rural Development and encouraged active U.S. participation. The Committee considered the stated goals of the conference to be comparable to those of the "New Directions" policy. 89/

88/ Ibid., p.

89/ House Foreign Affairs Committee. Report No. 96-79. p. 14.

b. Population Planning and Health

\$201 million was authorized for population programs while \$141 million was specified for health activities. The House Committee added a reference to community-based development programs which recognized individuals working to limit the size of their families. This language was added to the list of appropriate activities for increasing motivation for family planning among developing nations.

c. Education and Human Resources Development

This section was \$105 million for FY 1980. The only policy change resulted from an amendment sponsored by Senator Percy which was intended to clarify AID's authority and responsibility to provide advanced education and training in disciplines required for planning and implementing development programs.

d. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

The bill authorized \$125 million for these activities. Perhaps the most attention to "New Directions" policy in 1979 was focused on the energy programs under this section. Congress sought to reinforce the policy guidelines on energy activities and to encourage AID to increase work in projects for conventional energy technologies and resources in the developing nations. The intent was to complement, not diminish, other programs concerning renewable and unconventional energy technologies which were specified in section 119 of the Foreign Assistance Act of 1961. New language also authorized the President to assist nations (particularly non-OPEC members) in developing indigenous energy resources to produce

energy needed to sustain their economies. This would include help in geological and geophysical survey work necessary to locate and explore for oil, natural gas and coal.

The Foreign Affairs Committee also gave high marks to the early operations of Appropriate Technology International (ATI), a program initiated by the House Committee. Concern, however, was expressed that AID might not fund ATI at previously agreed-upon levels and that ATI was being unnecessarily bogged down in burdensome contracting procedures promulgated by AID. The Committee hoped that ATI would eventually receive a \$10 million annual budget as suggested by the Agency. 90/

2. Other Pertinent Provisions

- a. The Foreign Affairs Committee noted its continued support for the integration of women in the development process. Although no policy changes were suggested, the Committee recommended that the annual report submitted to Congress by the Chairman of the Development Coordination Committee include a discussion on AID efforts to implement women in development objectives. The Committee also expressed its expectation that continued progress in this area would be supported by the Agency. 91/
- b. A new section was added (section 126) which declared that a close relationship existed between development assistance and illicit narcotics production in LDCs, and that in most cases it was the poorest population that was engaged in illegal activity. It was argued that in order to successfully prevent narcotics production in developing countries, alternative economic opportunities must be

90/ Ibid. p. 17.

91/ Ibid. p. 12.

promoted. Therefore, AID was directed to support broader development programs in these nations. Programs would include crop substitution alternatives and constructive educational and social programs for poor farmers engaged in illegal drug cultivation. 92/

c. The Senate, on the recommendation of Senator McGovern, adopted a change to Title XII, Famine Prevention and Freedom from Hunger. In order to reaffirm the intent that programs under Title XII specifically emphasize the food and agricultural needs of the LDCs, five areas of activities were added to the legislation. The amendment was also meant to stress the need for research to be "conducted in the developing countries themselves" and should be "adopted to local circumstances." 93/

d. The Foreign Relations Committee also focused attention on development activities in the South Pacific finding that an emphasis should be placed on programs concerning population control, appropriate technology in agriculture and aquaculture, and appropriate technology training. 94/

3. PL 480

a. Title II was amended to encourage local participation in the distribution of commodities in order to promote the effective use of this title. This was also intended to nurture the principle of self-reliance in conducting food assistance projects.

Title II was also changed by broadening the authority for sales of title II commodities for local currencies, an activity which was prohibited except under specific conditions. This Senate-initiated change permitted foreign

92/ Ibid. p. 19.

93/ Senate Foreign Relations Committee. Report No. 96-137. p. 32.

94/ Ibid. p. 9.

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currency sales of title II commodities if the currencies were used for "alleviating the causes of the need for the assistance in accordance with the purposes and policies specified in section 103 of the Foreign Assistance Act of 1961."

b. Additional lanaguage was added in order to prevent PL 480-supplied commodities from interfering with production or marketing in recipient countries. This was added to an existing stipulation that PL 480 commodities not act as a disincentive to domestic production in recipient nations.

c. A new section was added requiring, to the greatest extent possible, that PL 480 commodities which were supplied for development purposes be made available on a multiyear basis when necessary.

FY 1980 Authorizations in H.R. 3324 for "New Directions" Programs
(in million of dollars)

	<u>House</u>	<u>Senate</u>	<u>Conference</u>
Food and Nutrition	713.1	583.6	659
Population Planning	216.3	193.6	201
Health	150.3	128.7	141
Education and Human Resources Devalp.	132.0	87.6	105
Technical Assistance, etc.	136.1	119.7	125
Total	<u>1,347.8</u>	<u>1,113.2</u>	<u>1,231</u>

M. FISCAL YEAR 1980 FOREIGN ASSISTANCE APPROPRIATIONS

Congress did not enact a Foreign Assistance and Related Programs Appropriation Act for FY 1980. The activities normally funded by this bill operated the entire year under the authority of a continuing resolution. For the most part, the foreign aid program was funded at levels provided in fiscal year 1979. The total amount appropriated for foreign assistance under the continuing resolution (H.J. Res. 440) for FY 1980 was \$7.6 billion.

1. FY 1980 Appropriations in H.J. Res. 440 for "New Directions" Programs
(in million of dollars)

	<u>House*</u>	<u>Senate*</u>	<u>Continuing Resolution</u>
Agriculture, Rural Development, and Nutrition	659.0	619.9	605
Population Planning	195.5	183.6	185
Health	140.6	134.9	130
Education and Human Resource Develop.	105.0	101.0	97
Technical assistance, etc.	118.6	105.2	115
Total	<u>1,218.7</u>	<u>1,144.6</u>	<u>1,132</u>

*Represents funds contained in H.R. 4473, the unadopted FY 1980 Foreign Assistance and Related Programs Appropriation Act.

Summary Outline of the Evolution of "New Directions" Policies
(by year, 1973-1978)

1973 Legislation

I. General Policy

- A. Primary emphasis to be placed on meeting the basic needs of rural poor majority in the development countries
- B. Increase Coordination
 1. With the private sector through:
 - a. Educational institutions, cooperatives, credit unions, private voluntary organizations
 2. Among all U.S. development-related activities
 - a. The vehicle: Development Coordination Committee
 3. With recipient countries

II. Program focus to be on Specific Functional Categories

A. Food and Nutrition

1. Goal to rapidly increase food production of small farmers
2. Focus on distribution and nutrition of foods
3. Emphasize agricultural planning and rural development including:
 - a. Local institutions (cooperatives, banks, market towns)
 - b. Local infrastructure (feeder roads, storage facilities, small-scale agricultural-related industries, water supplies)
4. Emphasize research to:
 - a. Increase food productivity of small farmer
 - b. Create new, low cost foods
 - c. Increase nutritive content in traditional cereals and starchy foods. Improve diets of young children and pregnant women.

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B. Population Planning and Health

1. Build effective systems for the delivery of family planning and health services for the poor
 - a. Implement an integrated approach (i.e., combine population programs with programs to increase food, employment, education, health)
2. Emphasize paramedical personnel
3. Emphasize construction of simple, yet utilitarian rural health centers
4. Contribute to international, multilateral programs
5. Stress research on:
 - a. Fertility
 - b. Disease control
6. Training and program evaluation

C. Education and Human Resources Development

1. Emphasize low cost, non-traditional systems of education
2. Focus on decreasing illiteracy
3. Integrate women into national economies
4. Focus on improving administrative capacities of recipient governments
5. Support higher education only on a selective basis

D. Selected Development Problems

1. Focus on small-scale urban infrastructure and industrial projects such as:
 - a. Transportation, power, housing, municipal services, land use controls

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E. Selected Countries and Organizations

1. Provide loans to alleviate foreign exchange problems in select number of countries.
 - a. India, Pakistan, Indonesia, Ghana, Sudan
2. Support private development organizations; development of capital at the grass roots level
 - a. International Executive Service Corp, Asia Foundation, cooperatives, credit unions, PVOs
3. Support international organizations
 - a. Organization of American States, Central Treaty Organization

Major Changes, Additions, Revisions after 19731974 Legislation

I. General Policy

- A. Increase participation of poor in the development process
- B. Increase role of the private sector
 1. Put an end to all transfers of resources that can be handled by the private sector
- C. Distribute regional development assistance more equitably
 1. Focus more on Africa

II. Functional Categories

A. Food and Nutrition

1. To receive primary consideration among functional categories
2. Emphasize countries with per capita income of less than \$300 which were severely affected by commodity price increases.
3. Emphasize agricultural credit programs

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- a. To enable local institutions to make loans for: wells, pumps, farm machinery, improved seed, fertilizer, pesticides, vocational training, looms, schoolhouses, sanitation facilities, community centers, food industry development, handicraft aids

B. Population Planning and Health

1. Use existing patterns of manpower
 - a. Traditional midwives, village volunteers, religious leaders
2. Promote an educational process aimed at the family level

1975 Legislation

1. General Policy

A. Focus on intermediate technology

1. Emphasize technology appropriate to labor-abundant, capital-scarce environment
 - a. Animal-drawn plows and seeders, roto-tillers, simple grain storage bins, small-scale irrigation works, hand-operated irrigation pumps, manually-operated corn and peanut shellers, intermediate road construction equipment (e.g., ox-carts)
2. Identify, design, and adapt from existing designs of intermediate technology
3. Field test
4. Study proposals for an intermediate technology institute
5. Establish information center for collection and dissemination of information on intermediate technology
6. Coordinate with recipient country on such matters; encourage efforts of recipient country to implement intermediate technology

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B. Focus on research

1. Increase role of U.S. land-grant colleges
 - a. In agricultural research to expand world food production
 - i. Orient to needs of small farmer
 - ii. Field test
 - iii. Provide extension services

II. Public Law 480 Policy

- A. Emphasize countries most seriously affected by food shortages
 1. Provision of food aid to be contingent on country's efforts to increase agricultural production via labor-intensive, small-farm, self-help measures
- B. Focus on participation of poor. Programs should:
 1. Increase employment of poor
 2. Increase access of poor to local institutions
 3. Emphasize rural sector in development strategies
- C. Human rights provision
 1. Withhold development assistance in any country suppressing human rights unless:
 - a. There is proof that such assistance is benefiting the poor
 - b. Neither House of Congress disapproves

III. Functional Categories

- A. Food and Nutrition programs should:
 1. Organize a system of financial institutions which provide both savings and credit services to the poor
 2. Improve marketing facilities
 3. Establish more equitable and more secure land tenure arrangements

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- B. Population Planning and Health programs should:
 - 1. Focus on preventive health programs
 - 2. Focus on motivational programs
 - 3. Create incentives to population planning
- C. Education and Human Resources Development programs should:
 - 1. Improve productive skills of rural families
 - 2. Strengthen management capability of those institutions which enable poor to participate in the development process
- D. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems programs should:
 - 1. Emphasize technical assistance through private voluntary organizations and regional and international development organizations
 - 2. Emphasize increasing production and conservation of energy
 - 3. Disaster reconstruction
 - 4. Assist urban poor in slum areas of large cities
 - 5. Program lending and major infrastructure projects should not to be emphasized

1976 Legislation

- I. General Policy
 - A. Reemphasize Focus placed on Private Voluntary Organizations
 - 1. Ensure independence of private organizations is maintained
 - 2. Establish central office for management of private voluntary organizations

1977 Legislation

- I. Functional Categories
 - a. Food and Nutrition
 - 1. Increase assistance intended to decrease harvest losses

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- B. Education and Human Resources Development
 - 1. Increase primary school access
- C. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems
 - 1. Encourage nonnuclear sources of energy

1978 Legislation

I. General Policy

- A. Designate primary responsibility for the development process to the recipient country
- B. Give priority to development programs initiated in the developing country
- C. Give priority to development programs in countries which will make the most use of such assistance to help satisfy the basic needs of the poor
- D. Carry out, to the maximum extent possible, U.S. development efforts through the private sector and private voluntary organizations
- E. Emphasize communications technology

1979 Legislation

I. General Policy

- A. Reemphasize use of private voluntary organizations and cooperatives by AID
- B. Develop alternative economic opportunities for poor farmers who are engaged in illicit narcotics production
- C. Stress intent that Title XII, Famine Prevention and Freedom from Hunger, emphasize the food and agricultural needs of the developing countries

II. Functional Categories

A. Food and Nutrition

- 1. Emphasize deforestation problems of LDCs
- 2. Support active U.S. participation in FAO Conference on Agrarian Reform and Rural Development

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B. Population Planning and Health

1. Promote community-based development programs which recognize individuals working to limit the size of their families

C. Education and Human Resources Development

1. Provide advanced education and training in disciplines required for planning and implementing development programs

D. Technical Assistance, Energy, Research, Reconstruction, and Selected Development Problems

1. Increase work in conventional energy technologies and resources in developing countries
2. Assist in developing indigenous energy resources
3. Maintain funding for Appropriate Technology International

III. PL 480

- A. Encourage local participation in the distribution of title II commodities
- B. Broaden the authority for local foreign currency sales of title II commodities
- C. Emphasize non-interference of PL 480 commodities with production or marketing in recipient countries
- D. Make PL 480 commodities available on a multiyear basis when they are supplied for development purposes

III. A. AID WASHINGTON POLICY CHANGES 1973-1980*

1. INTRODUCTION

Examined from any perspective, it appears that AID officials in Washington have been engaged in serious and continuing efforts to reorient the Agency since the passage of the New Directions mandate by Congress in late 1973. In the specific area of policy formulation, considerable time and attention have been given to the preparation of various policy guidelines, and there appears to be a genuine effort by AID officials in Washington to ensure that New Directions policy is taken seriously.

In spite of this concern with policy formulation, the resulting documents do not always present a precise picture. One explanation for this lack of clarity is the wide variety of documents, emanating from different sources within the Agency and serving differing purposes, which all contain policy statements. Major policy pronouncements tend to be published as "Policy Papers," but a variety of other sources of policy, including "Policy Statements" and "Policy Determinations," also exist. Policy may also be contained in the annual Congressional Presentation, the AID Administrator's Annual Policy Statement to the President, speeches by the Administrator, official testimony by AID officials before Congress, airgrams providing guidance to the missions, and certain ad hoc papers and reports. Brief summaries of most policies are contained in AID's "Handbook I," but appear more as a list

*This section is based upon interviews with AID officials and an examination of the pertinent AID policy documents. A brief index of these documents appears on pages 57 and 58.

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of somewhat disconnected policies rather than providing an overall policy statement. Moreover, even the fuller statements presented in the original policy documents themselves often present statements in quite general terms rather than providing precise criteria and guidelines. ^{1/}

Difficulty in establishing precise policy guidelines is not unique to AID, but in the case of AID it appears to reflect an unusual constellation of problems inherent in the nature of development which have influenced the agency's effort to formulate policy and implement the New Directions mandate. Among the most important of these are: (1) the imprecise nature of the Congressional mandate, (2) the nature of the development process, and (3) the structure of the agency itself.

2. MAJOR FACTORS INFLUENCING A.I.D. POLICY FORMULATION

a. The Congressional Mandate

The 1973 congressional legislation marked in fact as well as rhetoric a "new direction" for United States development assistance. While maintaining its commitment to promoting economic growth, the Congress was now on record as mandating a new approach to growth, in which the focus would be the poor, particularly in rural areas. The legislation gave a number of directives

^{1/} For a brief, informal description of these various sources of policy, see Susan Super, "What is Official AID Policy and Who Makes It?" Front Lines, Vol. 17, No. 6, March 15, 1979.

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regarding the role that AID was to play in implementing this approach, but perhaps the most clear-cut was that AID should now become more "specialized", focusing on those functional sectors which were seen to "affect the lives of the majority of the people in the developing countries": food production, rural development, and nutrition; population planning and health; and education and human resource development. Moreover, AID was to give the "highest priority" to the type of project which "directly improves the lives of the poorest of their people and their capacity to participate in the development of their countries." 2/

This clearly represented a major change in United States development philosophy, but the specifics of the approach as provided in the legislation were not particularly precise. In part, this can be explained by the rather cryptic and abbreviated form of the 1973 legislation, but it also appeared to represent a more fundamental issue: The very newness of the New Directions philosophy meant that its intellectual base had not yet been completely constructed. 3/ Research and theory were somewhat fragmentary and contradictory, and few actual cases of a redistribution with growth strategy existed. Moreover, although strategies similar to that of New Directions were beginning to catch the interest of the World Bank, Canada, and a number of European nations, no donor except Sweden had had any significant experience with such an approach by 1973.

2/ Foreign Assistance Act, as amended, 1973, Section 102(b).

3/ Much of the theoretical justification is to be found in Owens, Edgar. *Development Reconsidered*. Lexington, Mass. Lexington Books, 1972.

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In many ways, the New Directions mandate was a pioneering effort, with little experience or theory to serve as guideposts. Not surprisingly, this meant that a number of issues remained unanswered in the legislation, or at least open to interpretation. Some of the most important of these issues which have continued as sources of discussion within A.I.D. itself have been the following:

First, the legislation clearly implied that AID would no longer be a "general purpose" agency, covering projects in all sectors, but would become more "specialized," focusing in particular upon the three functional categories listed in the legislation. What was less clear, however, was the role of AID in the development process itself. Was it to remain in its traditional role as a mechanism to transfer resources, or would it shift to a more "experimental" focus in which it attempted to concentrate on a few innovative, pioneering projects which could be replicated by the recipient countries themselves?

Secondly, how should key concepts, such as "the poor," "participation," and "rural development" be defined? This was an essential question, since in many ways this would help resolve a third issue, which was how narrowly AID should interpret the new mandate. For example, when the legislation suggested that priority be given to projects which "directly improve the lives of the poorest," did this necessarily exclude all infrastructure projects, including those in which the poor might be important indirect beneficiaries? Moreover, since limited AID resources made it impossible to provide assistance to all "poor" groups in developing nations, which groups should be the main target of AID efforts?

b. The Nature of Development

(1) Unique clients: The difficulties AID has experienced in dealing with the ambiguities in the Congressional mandate reflect in part the complexities inherent in the development process, as well as the nature of the task that the agency is expected to perform. AID faces the task of dealing with over sixty countries, each with its own particular mix of needs and capabilities. Given a situation in which every recipient represents a "special case," strategies effective for one may be less so for another. To avoid the problem of making mechanistic responses to unique circumstances, many AID officials contend that overall policies can contain only the most general guidelines. The need for flexibility is also reinforced by the fact that these sixty-plus "special cases" are also sovereign states. The implications of this are recognized by the legislation itself, which attempts to ensure that AID has a low profile in the host countries. While AID should work towards projects that benefit the poor, the legislation also states that

Development planning must be the responsibility of each sovereign country. United States assistance should be administered in a collaborative style to support the development goals chosen by each country receiving assistance. 4/

A.I.D. officials argue that the need for a "collaborative style" and the uniqueness of each recipient require a tailored response rather than rigid policy or a cook book approach. Moreover, it is stressed that, due to its

4/ Foreign Assistance Act, Section 102(b).

relatively small budget, AID plays an increasingly marginal role in the affairs of many of these countries, making it impractical to attempt to influence recipient country policies even if that were desired. As a result, these officials suggest that overall policy can provide only the most general guidelines consistent with the New Directions strategy, leaving the specifics to be worked out on a case-by-case basis.

(2) Contrasting development perspectives The difficulties in erasing the ambiguities from general policy guidelines are only partly explained by the existence of many unique cases. Equally important is the fact that within the field of development, a number of contrasting perspectives exist. Many of these perspectives surface within AID itself, leading to sometimes spirited debates on a wide variety of issues ranging, for example, from debates on tradeoffs between quantity and quality in potable water projects to the best approaches for stimulating agricultural credit.

The broadest and most important running debate within the Agency appears to be concerned with the nature of international development itself. Most important in terms of AID policy formulation are two contrasting views, characterized within AID as the "sectoral" and the "participatory" development strategies. ^{5/} Proponents of each strategy see it as compatible with the New Directions mandate, as each has as its primary goal a growth strategy

^{5/} For a description of these approaches, see Agency for International Development. Organization and Structure of AID: Task Force Report for the Administrator Agency for International Development, October 1977. Appendix A. Also known as the Babb Committee report after its principal author.

that emphasizes the sustained improvement of the living conditions of the poor. ^{6/} However, the sectoral strategy utilizes a more "economic" approach, emphasizing increases in production and productivity, and focusing on selected sectors. The participatory strategy, on the other hand, employs a more multi-disciplinary approach, combining economics, politics and socio-cultural analysis to help to bring about institutional and structural changes that increase the ability of the poor to manage their own lives. In describing the debate between these two viewpoints, it would be highly misleading to suggest that the agency is "polarized" by these discussions, since many in the agency do hold intermediate views. However, because of these two viewpoints, important debates continue within a New Directions framework regarding many of the basic definitional and procedural issues left ambiguous in the legislation. These include questions which have important implications for the formulation of general policy guidelines, such as the appropriate targets within the poor population, the types of projects that would be most effective, and the sectors that should be emphasized.

Proponents of the sectoral strategy tend to see the production of an adequate supply of food as the most important development goal. With this perspective, they support a focus on the smaller farmer, largely on the grounds of economic efficiency, arguing that these are potentially more productive than farmers with extensive holdings. Since this strategy assumes that production increases occur largely through increased commercialization

^{6/} In addition, a few in AID still question the value of New Directions and favor some version of a "trickle-down" approach, but at least in the Carter administration they tend to be excluded from the major policy debates. For an example of their approach, see Wharton, Clifton. Old Mother Hubbard's Cupboard: Issues of Productivity versus Equity in the Third World. Wilson Award Lecture. University of Rochester. Rochester, New York. April 18, 1978.

of agriculture, there is an emphasis on new infrastructure including rural roads and possibly rural electrification, as well as improved technology. The major role for AID in the sectoral strategy is to work with governments at the national level to develop rural infrastructure, as well as to provide technology through agricultural research, agricultural colleges, and agricultural extension work.

Its proponents concede that in such a strategy it is the relatively better off small farmers that initially benefit, since they tend to be the most efficient, the most enterprising, and the most strategically placed to take advantage of the new technologies and infrastructure. This focus on the relatively well-off small farmer is defended on two grounds. First, important indirect benefits are assumed to accrue to the relatively poorer farmers and other rural dwellers through emulation of the relatively well-off small farmers, employment on their farms, and the enjoyment of lower food prices. Second, a focus on the relatively poorer farmers with little or no resources would lead, it is argued, to nothing more than modified subsistence agriculture, in which adapted versions of traditional technologies would prove to be of very doubtful benefit for improving production. Moreover, since their productivity increases would be low, any attempt to increase their incomes directly would do little more than add inflationary pressures.

Proponents of the participatory strategy, on the other hand, argue that increased production is inadequate without basic structural and institutional change. They are especially critical of the fact that under the sectoral approach the initial beneficiaries are the relatively well-off small farmers. Supporters of the participatory strategy see the

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sectoral approach as subject to the same criticism as the "trickle-down" strategy, except that the new favored groups, the relatively well-off farmers, are somewhat further down on the socio-economic scale. It is claimed that the focus on the relatively well-off small farmer clouds the issue of whether this is really a strategy that ensures a focus on the poor, since the definition of "small farmer" can become so elastic as to include virtually any rural cultivator in Africa or Asia, excluding only the large hacienda style estates in Latin America and a few other countries such as Ethiopia.

In the participatory development strategy, the question of distribution of benefits among all of the poor is faced more directly than in the sectoral strategy. Instead of focusing upon modern technology and infrastructure, the emphasis is placed upon distributional questions, such as the access of the poor to productive assets (such as land), as well as increased emphasis on employment expansion and human resource development. Under the participatory strategy, the appropriate role for AID is to enhance the power of the poor, through the encouragement or creation of responsive local institutions that would enable the poor to participate meaningfully both in development decision-making and benefits. Only under such an "empowerment" approach, it is argued, can the poorest individuals, including the landless, hope to benefit from the development process.

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c. The Influence of AID Structure on Policy-Making

A third characteristic which leads to a general diffuseness of AID policy is the structure of the Agency itself. Partly because AID deals with over sixty countries, and has a large field organization, tensions exist between the need for central policies and the realities of the differing countries and regions. Such differences are also reinforced by the relative strength of the regional bureaus in Washington, which can, to a certain extent, determine their own policies. Due to differing regional needs as well as the personalities involved, each region has its own perspective. The Latin American Bureau, for example, has been most supportive of the New Directions mandate in general, although it has at times resisted the emphasis on low percapita income nations which has had the effect of moving funds from its region. Similarly, the leadership of the Asia Bureau has in recent years been extremely supportive of New Directions. It is harder to generalize about the Near East Bureau, but in general it appears that it has been less interested, due perhaps to the fact that much of the Economic Support Fund money not tied by the New Directions mandate is administered by this bureau. Most resistant to New Directions has, it appears, been the Africa bureau, which has argued that given the poverty of the region and the lack of any development, increased attention needs to be paid to large-scale infrastructure projects, particularly in the areas of transportation and water. 7/

7/ Memorandum to Douglas Bennet from Joseph Wheeler, Strategy Related to Food Policy in East Africa. August 19, 1980. Also Part III E of this study.

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In addition to the regional bureaus, technical sector-specific groups within the Development Support Bureau have also been important, particularly in the drafting of sector policy papers in such areas as agriculture and health. Given the existence of many centers of influence, some have tended to describe AID as a "neo-feudal" organization of mutually interdependent offices. While such a characterization could appropriately describe most complex organizations, the concept does appear to have some merit, and in fact, it has been argued by one observer that given the nature of development, and in particular the tension between the field and the center, such an organization is inevitable. 8/

Given the debates and the existence of various centers of power within the organization, policy formulation largely becomes a consensual process. The bureau for Program and Policy Coordination (PPC), for example, appears to be in fact what its name implies, a coordinator rather than a director of policy. Faced with contrasting views of development, as well as the differing perspectives of the various bureaus, PPC attempts to establish a consensus, either through a synthesis or a compromising of the various points of view. This process has had important implications for the evolution of AID policy, which can be seen not only as the result of successive efforts to come to grips with the ambiguities in the New

8/ See Siffin, William. Public Technical Assistance--The Effects of the Inner Environment Upon the Process, PATISAM. Indiana University, 1979.

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Directions mandate, but also as a continuing attempt to establish a consensus among the differing points of view within the Agency itself. As the following section illustrates, this has led to a policy which, although clearly within the New Directions philosophy, is characterized by a certain vagueness and gradual evolution rather than any radical shifts.

3. THE EVOLUTION OF THE BASIC NEEDS APPROACH

a. Initial Efforts (1972-1974)

Although the conventional wisdom has suggested that the evolution of AID's "Basic Needs" approach to development began as a response to the New Directions mandate approved in December, 1973, the reality is somewhat more complex. In fact, AID had already begun its own extensive review of its program almost two years previously, during FY 1972. On January 24, 1972, Administrator John Hannah announced a series of major reforms which appear remarkably similar to those of the subsequent Congressional mandate: an increased concern with a more equitable distribution of development benefits, and an increased concentration of AID resources on agriculture and food production, with an emphasis on human nutrition, population control, health care, and low-cost education. ^{9/} In October, 1972, a major "Policy Determination" and "Policy Background Paper" were

^{9/} AID Congressional Presentation, Fiscal Year 1973. p. A1

approved, which spelled out a new AID policy for encouraging employment generation and income distribution questions in discussions with developing nations. As noted in Part IA of this study, other traces of New Directions style policy can be found in the legislation as early as the latter 1960s. The 1972 documents, which still serve as basic policy in the Agency can probably be considered as the beginnings of the present "Basic Human Needs" strategy. 10/ This is not intended to minimize the crucial role of the Congressional mandate in 1973, which added decisive authority and helped to flesh out this general commitment. Most important, this sign of Congressional support helped tip the balance toward those in AID who favored the New Directions approach, and away from the Secretary of State and others in the administration who were less interested in such a philosophy.

AID's initial response after Congress had approved the 1973 legislation was not particularly far reaching. During 1974, the major AID reaction was a shift in accounting practice rather than development philosophy. This shift was marked by a revision in AID's budget presentation from one which had been broken down into capital and technical assistance to a budget divided by functional accounts reflecting the outlines of the new legislation. (see table 1)

10/ See Policy Determination #48: Employment and Income Distribution Objectives for AID Programs and Policies. October 2, 1972. And, Employment and Income Distribution Objectives for AID Programs and Policies: Policy Background Paper. Agency for International Development. October 1972.

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Table I. Budget Categories Used by AID, FY 1973 and 1975

FY 1973		FY 1975	
<u>Development Assistance</u>		<u>Development Assistance</u>	
Development Loans.....	565,350	Functional Development Assistance:	
Technical Assistance.....	179,468	Food and Nutrition.....	675,034
Alliance for Progress:		Pop., Planning and Health..	225,768
Development loans.....	295,200	Educ. and Human Resources..	109,474
Technical Assistance...	91,478	Selected Devel. Problems...	62,650
Population Programs.....	125,000	Sel. Countries and Orgs....	57,089
Int'l Organization		Total, Func. Devel.....	1,130,015
Grants:		(Total, grants incl.)..	(350,885)
U.N. and Other.....	124,835	(Total, loans incl.)...	(677,130)
Indus Basin Grants....	18,000	(Operating Expenses)...	(102,000)
Indus Basin Loans.....	25,000		
South Asia Relief.....	100,000	Int'l Orgs and Programs:	
Am Schs and Hosp Abroad...	15,575	UNDP and Others.....	153,900
International Narcotics		UN Environment Fund.....	10,000
Control.....	42,500	Indus Basin, Loans.....	200
Contingency Fund.....	30,300	Indus Basin, Grants.....	14,500
Asian Expenses, AID.....	58,800	Total, International	
Prototype Desalting Plant	—	Orgs and Programs.....	178,600
<u>Total</u>	<u>1,671,766</u>	Am Schs and Hosp Abroad	10,000
Security Assistance		Contingency Fund.....	30,000
Supporting Assistance	874,500	Administrative, AID....	47,000
Admin. Expenses, State	4,918	Administrative, State..	5,900
<u>TOTAL, AID</u>	<u>2,551,194</u>	TOTAL, Devel. Assist.	1,401,615
		Indochina Postwar	
		Reconstruction.....	943,300
		Security Assistance..	397,500
		Middle East Peace..	(377,500)
		Other Programs.....	(20,000)
		Middle East Special	
		Memo: Midle East	
		Peace Programs	
		Included Above.....	(477,500)
		<u>TOTAL, AID</u>	<u>2,842,415</u>

Source: Congressional Presentations, FY 1973 and 1975.

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The shift to functional accounting was not unimportant and the categories created in 1974 remain basically unchanged in AID's current budget presentations. But by themselves, the changes in accounting practice did not necessarily suggest that AID was not committed to restructuring its entire program. On the contrary, the Agency drew upon the congressional instruction to use a "collaborative style" to point out the difficulties involved in such a change, observing that "...although AID can revise its own policies fairly rapidly, it can only provide assistance upon request." 11/

This rather mechanical and somewhat guarded approach to the New Directions mandate can be explained by a number of factors. The 1973 legislation itself was rather brief, covering only a few pages. Most of the new legislation was, in fact, focused on the new functional categories of assistance, while the larger intent and philosophy of the program was largely confined to brief testimony in the hearings. AID caution can also be explained by the lack of certainty among some AID agency officials that this new approach would be long-lasting, given the seeming mercurial quality of some previous congressional aid policy changes and the apparently delicate coalition of interests and motives which had produced the New Directions mandate.

The AID response was also conditioned by the inexperience of a recently arrived Administrator, Daniel Parker, and Deputy Administrator, John Murphy, who had not been involved with AID during its previous efforts at internal

11/ Congressional Presentation, FY 1975, p. 12.

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evaluation which had led to the papers on employment generation and income distribution. Although the new AID leadership was formally and apparently sincerely committed to the idea of the New Directions mandate, their prior experience and expertise was confined largely to the field of management rather than development policy. According to some, this made it difficult for them to appreciate some important policy implication. For example, their initial efforts at bringing about a rigorous management reorientation focused largely on the technical problem of integrating technical and capital assistance in the new functional categories. Little attention was paid to the implications of this reorganization for the broader issues involved in the New Directions mandate, and only later, due to the persistence of senior agency officials, were some connections between this reorganization and the New Directions approach examined. Following on another track, the Deputy Administrator had formed a Task Force On Implementation of the New Development Strategy, which was to prepare a congressionally mandated report on AID responses to New Directions. However, the draft report of this group also appeared to reflect its inexperience. Its simplistic approach was severely criticized by many in the Agency who were sympathetic to the New Directions philosophy, and the report was subsequently shelved. ^{12/}

b. Conceptualizing the New Directions Strategy (1975-1976)

1. The 1975 Report to the House Foreign Affairs Committee. Following

^{12/} See A.I.D. Senior Operations Group. Task Force on Implementation of the New Development Strategy and Responses to the New Initiatives. Analysis of the Congressional Mandate, Final Draft Report, 1974.

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the disappointing Task Force report, efforts at defining policy to implement the New Directions mandate were delegated from the Office of the Deputy Administrator to the Bureau for Policy and Program Coordination (PPC). At the same time, the staff of the House International Relations Committee, which had also found the draft of the Task Force report seriously deficient, prepared a long list of specific questions to serve as guidance for the review. These were sent in a letter to the AID Administrator. This provided the opportunity and the stimulus for AID to undertake its first serious and extensive evaluation of its responses to the New Directions mandate. The final report, which was presented to Congress in 1975, was a carefully drafted and thoughtful statement of the implications of the New Directions philosophy, as well as a description of the changes that had taken place inside AID to implement the approach. 13/ The tone of the report was somewhat measured, noting that the nature of development was highly complex and uncertain and that the "Congress should be prepared for a series of false starts, changes, and failures...as well as successes..." 14/ At the same time, however, it did emphasize, as Administrator Parker noted in the introduction, that "AID enthusiastically supports the emphasis of the new legislation and would continue to do everything possible to implement it. 15/

13/ Agency for International Development. Implementation of "New Directions: in Development Assistance: Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973. July 22, 1975. The questions serving as guidelines for the report are listed on pp. 79-86.

14/ Ibid., p. VI.

15/ Ibid., p. VII.

Perhaps the most important general theme was the increasing awareness that AID was now a specialized rather than a general-purpose development agency. Now that AID focused its attention upon the New Directions philosophy, it saw its role as being concerned only with specified portions of that approach. Specifically, assistance was to be concentrated in the three mandated sectors (food and nutrition, population and health, and education and human resource development); the focus was to be on the poor majority, including women, primarily within the rural areas; and programs were to emphasize the poor as active participants in the development process. 16/ That this mandated AID role was only part of a broader development plan, however, was clearly stated, for example, in the observation that because "we rarely fund major infrastructure projects or many other activities does not obviate the need for them..." 17/

but although AID was reasonably clear in terms of its new, more specialized role, it also stressed that the precise specification of policy to carry out such a role that would be appropriate for all cases would be unrealistic:

Determining the precise application of general development approaches in specific cases remains, despite all our efforts and those of thousands of practitioners and scholars alike, a very murky, difficult, uncertain, complex and intractable business. The rapidly changing circumstances and conditions, the special characteristics of individual societies, the vagaries of the international economic system, and so forth, all suggest that modesty, especially as we confront another nation's problems, should be an important governor in our actions. 18/

16/ Ibid., p. 3.

17/ Ibid., p. 4.

18/ Ibid.

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(a) Definitional Complexities. Similar conceptual, theoretical, and practical difficulties were also inherent in the efforts to define the key terms related to the new development strategy. In attempting to define the "poor majority," a series of "benchmarks" 19/ were developed, although it was stressed that they would suffer from a lack of precision due to poor data, and that cut-off points were not intended to define a clear break point between poverty and prosperity. Even so, it was thought that such estimates would constitute a "majority" in most countries, accounting for an estimated three-fourth of the total population in AID-assisted countries and up to 90 percent of the population of some of the poorest countries. 20/

But given the reality of limited funds, who within this "poor majority" would be the targets of assistance? Here the report was less precise, noting that the selection of target group would depend upon "its economic and social conditions, its capabilities and desires, and other considerations which determine the programs yielding the most impressive benefits at least cost." 21/ In addition to direct benefits, it was stressed that programs should also "yield secondary benefits to as many as possible among the poor" 22/ although it was also recognized that tracing out beneficiaries presented a formidable challenge.

19/ In general, a person was considered poor by falling short of any one of the following: (A) per capita income below \$150 per year (1969 prices); (b) daily diet of less than 2160 to 2670 calories (depending on the country); and (c) several health indicators: life expectancy at birth of below 55 years, infant mortality over 33 per 1000 children aged 0-1, birthrates over 25 per 1000 population, or access to broadly defined health services for less than 40 percent of the population.

20/ Ibid., p. 6.

21/ Ibid.

22/ Ibid.

(b) Rural development. The new focus on rural development also presented some important conceptual problems. The report defined "rural" quite broadly, including "all sectors of development and all people who live in farm villages or hamlets and those who live in urban centers whose economic life depends primarily on agriculture." 23/ Utilizing such an approach, it was conceded that in "small and medium sized countries, rural development by this definition may well cover the entire country apart from the capital city and seaports and mining towns, if there are such..." It goes on to conclude that, "... food and nutritional assistance, by the above definition, may cover 98 to 99 percent of the places in the world." 24/ Moreover, rural development was seen as focusing on

"total rural production rather than agriculture, and the emphasis in production planning was on the linkages between agriculture, industry, and marketing (these categories include associated services and physical infrastructure, such as credit, information, inputs, processing, roads, irrigation, and so forth)" 25/

Regarding infrastructure in the context of New Directions, the report noted that "while AID is generally no longer providing support for major infrastructure projects, we continue to be extremely interested in those projects which provide the necessary local base for small farmers to increase their crops." 26/

23/ Ibid., p. 78.

24/ Ibid.

25/ Ibid.

26/ Ibid., p. 12.

Within the area of rural development, the report identified what it saw as the most crucial policy question: "whether a small farmer strategy is consistent with our dual objectives of increased food production and greater equity for the mass of rural population." 27/ This issue was made even more acute by the growing food crisis in developing countries. While the report stressed that AID strongly supported the small farmer strategy, it noted that the supporting evidence for this strategy was not yet entirely clear. Developing this theme, the report stated that:

We believe that over the long term the social benefits will be spread much more broadly and food production increased at least as much by emphasizing the small farmer; in the short term, however, there may be significant equity benefits to the poor if larger farmers have greater immediate capacity to increase food production more rapidly and if lower food prices result. 28/

Along these lines, however, the report continued its support for the small farmer strategy by stating that:

Where food production assistance can have a relatively short payoff--which in the best of circumstances will seldom be within a single fiscal year--well and good, but the thrust of our development approach is in direct support of the longer term structural changes needed to increase the productivity of the small farmer" (page 17, HFAC report 93-1471, Oct. 1974). The House report--and AID policy--stress that our "programs in support of short term production increases in certain countries...should be kept to the minimum...." 29/

(c) Participation: The focus on the poor and the small farmer also raised the equally difficult issue of participation, including the role

27/ Ibid., p. 9.

28/ Ibid.

29/ Ibid., p. 10.

of women. In AID's view at this time, participation appeared not simply as a desired goal, but as a crucial part of the strategy's potential success. As the report argued, "Programs most likely to succeed, and which receive highest priority emphasis under the Congressional mandate and AID policy, are those involving the active and effective participation of the poor in all facets of the development process." ^{30/} It was acknowledged, however, that the term "participation" covered a broad range of activities, from simply participating as a beneficiary of development programs, through actual participation in decision making about programs. At the same time, AID stressed the political difficulties involved in such a strategy:

In discussing the participation approach, we must be realistic as to the rate at which other nations are willing and able to adopt the many difficult political and social choices of the basic development strategy we advocate. This means that a rapid phase-out of assistance to nations simply because they do not fully adopt this approach would be self-defeating in the long run. A pilot project consistent with the new directions in such a country may initiate a dialog and process which could lead over time to major changes in strategy. ^{31/}

(d) Land tenure: A similarly cautious approach was taken to the important but highly sensitive issue of land tenure patterns and its relationship to participation of the rural poor. In essence, the report stated that while land reform was a desirable goal, wholesale land reform was in most cases politically unlikely. The report noted that AID was "reviewing carefully what we might be able to do in such cases to improve

^{30/} Ibid., p. 7.

^{31/} Ibid., p. 15.

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the tenure position of tenants, sharecroppers, and the rural landless as well as farmers with fragmented, marginal holdings." 32/ It continued by suggesting that "In certain extreme cases, we may simply have to avoid supporting otherwise sensible agricultural programs because of failure to settle the tenure issue. In most cases, however, step-by-step improvements should be possible." 33/ In all development policy, however, the report reiterated the need to recognize that AID was working with sovereign nations, which had important implications for the extent to which it could dictate its own policy:

Moreover, while AID and the U.S. Government must, of course be responsible for our programs, it is essential that we always keep in mind that the decisions regarding development policies and practices in the LDC's lie with the sovereign governments of those nations. Our influence is profound in some, slight in others, but in all cases must be exercised in a collaborative style if we are to continue to be a welcome force for development. 34/

To summarize, the 1975 Report to the Foreign Affairs Committee presented a thoughtful and reasonably detailed description of how AID perceived its role within the New Directions strategy. While underscoring AID's "complete commitment" 35/ to this new approach, the Report also expressed some of the ambiguities, conceptual difficulties, and possible tradeoffs that had to be faced in developing a successful strategy. Noting the vague and conflicting guidelines offered by development theory, and the special conditions that characterized each developing country, the Report attempted to create a

32/ Ibid., p. 16.

33/ Ibid.

34/ Ibid., p. 4.

35/ Ibid., p. 3.

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general framework rather than provide a precise formula for development assistance. As a result, basic concepts such as the "poor majority," "rural development," and "participation" were defined in such a way as to be capable of considerable interpretation.

Even the focus on the "small farmer strategy" appeared to attempt to walk the line between the "sectoral" and "participation" development approaches. In emphasizing the productive potential of the small farmer, the "poorest of the poor," such as the landless, were implicitly overlooked, which suggests a step towards the sectoral approach. At the same time, however, the Report took great pains to point out that farmers to be assisted should be part of the "poor majority", and that the "prime focus is on enhancing the quality of life of the poor farmer." ^{36/} In particular, it suggested that the focus on these poor (if potentially efficient) farmers might require not only improved infrastructure and technology (suggested by the sectoral strategy) but also important structural changes, such as shifts in land tenure, access to credit, improved participation, and other institutional changes.

2. Congressional Legislation, 1975. Subsequent to the Report, Congress made the New Directions mandate much more explicit in the 1975 foreign assistance legislation, largely reinforcing the general direction in which AID stated that it was moving. Specifically, the legislation noted that development assistance

^{36/} Ibid., p. 11.

...should be used not simply for the purpose of transferring financial resources to developing countries, but to help countries solve development problems in accordance with a strategy that aims to increase substantially the participation of the poor. Accordingly, greatest emphasis shall be placed on countries and activities which effectively involve the poor in development, by expanding their access to the economy through services and institutions at the local level, increasing labor-intensive production, spreading productive investment and services out from major cities to small towns and outlying rural areas, and otherwise providing opportunities for the poor to better their lives through their own effort. 37/

The legislation also strongly endorsed the small farmer strategy, noting that:

The greatest potential for significantly expanding world food production at relatively low cost lies in increasing the productivity of small farmers who constitute a majority of the nearly one billion people living in those countries. 38/

Furthermore, the legislation stated that assistance for rural development

...shall be used primarily for activities which are specifically designed to increase the productivity and income of the rural poor, through such means as creation and strengthening of local institutions linked to the regional and national levels; organization of a system of financial institutions which provide both savings and credit services to the poor; stimulation of small, labor intensive enterprises in rural towns; improvement of marketing facilities and systems; expansion of small-scale rural infrastructure and utilities such as farm-to-market roads, land improvement, energy, and storage facilities; establishment of more equitable and more secure land tenure arrangements; and creation and strengthening of systems to provide other supplies and services needed by farmers, such as extension, research, training, fertilizer, water, and improved seed, in ways which assure access to them by small farmers. 39/

37/ Foreign Assistance Act, Section 102(c).

38/ Foreign Assistance Act, Section 103(b).

39/ Foreign Assistance Act, Section 103(c).

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3. Further AID Interpretations: Airgram A-239, April 1976. Although the mandate was now spelled out with somewhat more precision and AID was, thanks in part to the exercise of the 1975 Report, clearly focused on the implications of the New Directions mandate, the dilemmas inherent in the approach remained. As AID Washington noted in a "Program Guidance" airgram to the missions in April 1976 concerning the New Directions mandate:

It is appropriate that within AID disagreement should exist on how to carry out our "Congressional Mandate," for the problems are complex and fraught with pitfalls ... We do not pretend to know all the questions which should be asked in addressing the difficult task of improving the productivity and welfare of the poor majority, let alone all the answers. Thus, this discussion is part of a continuing effort to evolve successive approximations, rather than clear-cut answers to developing problems. 40/

Developing this theme, the Airgram emphasized that AID should increasingly adopt the approach of an "experimental" agency using its relatively limited funds most effectively as a developer of new and replicable projects, rather than simply serving as a mechanism for the transfer of resources. 41/ Such an approach, it was suggested, would also be the most effective way to achieve a "collaborative style" in working with recipient nations. Rather than attempting to force recipients to take steps they strongly opposed, it was suggested that:

40/ Airgram A-239, "Program and Project Issues in AID's 'New Directions'" (Including Selective Program Guidance for FY 1978). April 28, 1976, p. 2.

41/ Ibid., p. 4.

By helping to develop and demonstrate viable and replicable models and by sponsoring relevant studies and research—preferably carried out by competent and influential local analysts—there can also be a positive impact on building the political will required to take more difficult steps to help the poor majority. 42/

Such an analysis suggested the extent to which AID was concerned with dealing with the potential political constraints in developing nations that could inhibit the New Directions strategy, as well as the possible implications for projects. As the Airgram stated:

Insufficient understanding of political constraints can lead to inadequate project design, or project failure. For example, shifts in priorities of health or education programs to favor the poor majority are much likelier to succeed if they attempt to involve or generate support from politically significant elements in the government and private sector. 43/

At the same time, however, the Airgram cautioned that one should not uncritically assume that apparent political constraints in developing nations were automatically binding, since this could cause one to ignore important questions (such as the possibility of feasible steps to help the landless). Automatic acceptance of political constraints could also lead one to focus on projects which addressed relatively marginal problems, often at quite high cost; or projects which were palliatives at best and might even have long-term negative consequences; or projects which might in effect serve to strengthen and serve local elites or repressive governments. 44/

42/ Ibid., p. 6.

43/ Ibid.

44/ Ibid.

The airgram also focused on the issue of participation, acknowledging that

There is a healthy debate within the Agency about the applicability of some definitions of the term to particular situations, how it can be used operationally in given projects, whether it is an objective per se or a means to an end..." 45/

Regardless, the airgram stressed the importance of participation, noting that, "at a minimum it is important to find out from the intended beneficiaries their thoughts on the problem to be addressed and their reactions to the changes they are being asked to make." Furthermore

Recent comparative analyses have strongly supported the view that effective participation in local-level project decisions is one of the most important determinants of success of rural development activities...and individuals or groups are more likely to change their behavior if they feel some "ownership" (or, in AID terms, participation) in the decisions and implementation plans. This would apply, for example, to use of new seeds or credit by farmers, and to desired changes in community and family health and family planning practices. 46/

At the same time, the Airgram cautioned the missions against going to extremes:

It is, of course, easy to carry our emphasis on participation too far, forgetting that like any other aspect of the development process, it is far from a panacea. It will not substitute for the need for profitable technologies, appropriate policies, etc.; and participation institutions on local areas must be combined with effective links that relate rural areas to the political centers which allocate resources and control services. 47/

45/ Ibid., p. 7.

46/ Ibid., p. 8.

47/ Ibid.

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Focusing on appropriate strategies for rural development, the airgram also discussed the variety and complexity of the factors to be considered. It expressed its support for increased small farmer production as a necessary condition for broad-based rural development due to its importance in increasing income and food supplies, as well as its positive effect on other aspects such as off-farm jobs. It also stressed that changes in technology or cropping patterns will generally be necessary to increase small farmer production, noting that insufficient attention to the actual profitability of proposed technologies and cropping patterns "is among the most common causes of failure of rural development projects." 48/ At the same time, AID Washington stressed that rural development was "clearly more than just small-farmer technologies and production per se." 49/ In addition, it was argued that other rural development activities were also high-priority, including land reform, rural industry and agribusiness, processing, marketing, and small farmer organizations. 50/

The complex variety of factors to consider made it more difficult to provide precise guidelines for specific projects. As the airgram observed, "The obvious issue this raises is how countries and Missions working with them can approach the problem of sorting out priorities, phasing, and possible combinations of rural development interventions." 51/ Given all of these

48/ Ibid., p. 11-12.

49/ Ibid., p. 12.

50/ Ibid.

51/ Ibid.

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complexities, AID Washington stated that, "The best feasible answers to such questions for a given country or potential AID project should come from an in-depth analysis of the particular situation." 52/ Such a case by case approach clearly provided few guidelines, and allowed for considerable flexibility. Under certain conditions, the airgram continued, it would even be possible to justify under the New Directions approach assistance to national governments to help in the analysis of policies, priorities, phasing, and similar issues as well as the more typical area-specific integrated rural development projects. 53/

This attempt to spell out the implications of the New Directions mandate to the missions clearly demonstrates the efforts to synthesize the views of the "sectoral" and "participatory" approaches, as well as taking account of the uniqueness of each country situation. As a result, fine lines were drawn to attempt to construct policies that were precise enough to be meaningful, yet not so specific as to become a mechanical response to every situation. The airgram instructions also showed the efforts to draw the fine line between being oblivious to or mesmerized by possible political constraints. Most important, it acknowledged that, given the complexity and uncertainty of the development process, and the limited resources at AID's disposal, it was felt that the best role for AID would be that of an experimental organization, designing replicable projects in the New Directions philosophy in such a way as to demonstrate convincingly to itself and to the recipients the feasibility of the philosophy.

52/ Ibid.

53/ Ibid.

c. The "Basic Human Needs" Approach (1977-1980)

By the mid-1970s, a variety of donors in addition to AID had become interested in some form of a "growth with equity" strategy. Most prominent perhaps, was the change towards a growth with equity strategy in the World Bank, which had begun in 1973. In addition, many bilateral donors (such as the Scandinavians, the Dutch, the British, and the Canadians) were also heavily involved in developing similar approaches.

The International Labor Organization (ILO) was developing what it termed a "basic human needs" approach to growth with equity. The possibility that such an approach could provide additional clarity and focus to the New Directions mandate sparked considerable interest among some members of Congress concerned with development assistance. As a result, the House International Relations Committee sent one of its senior staff to the World Employment Conference sponsored by the I.L.O. in 1976, which had as its main agenda item the discussion of the basic human needs strategy. 54/

In addition, Representative Donald M. Frazer of Minnesota sent a letter to the AID Administrator, noting the potential importance of this conference and urging him to send a high-level representative of the Agency. Top management in AID, however, appeared less persuaded regarding the potential of this ILO approach, the Deputy Administrator sending Representative Frazer a brief letter noting that this did not appear to be the direction in which AID desired to move. Behind this letter was the general belief held by AID's top management and the senior economist that the basic human needs strategy as

54/ U.S. Congress. House. Committee on International Relations. A Basic Human Needs Strategy of Development. Staff report on the World Employment Conference, September 1976. Washington, U.S. Govt. Print. Off., 1976.

outlined by the ILO was not sufficiently growth oriented, and tended to give the priority to welfare and distribution. Since these officials perceived existing AID strategy as providing a more equal balance between growth and equity, it was generally felt that the basic human needs approach would represent an unfortunate modification in AID policy by de-emphasizing the growth side of the development program.

1. Introducing the Basic Human Needs Strategy. In 1977, the inauguration of a new President brought about a major reevaluation of AID. By October 1977, three major studies of AID were completed, one an internal Task Force Report 55/ prepared for the new Administrator, John Gilligan; one completed by the Development Coordination Committee, 56/ and one external report completed by the Brookings Institution for the new Secretary of State. 57/ In addition to this wide-ranging evaluation, the change in administration also brought new senior level personnel to AID, which now included individuals who were far more optimistic than the previous Administration regarding the potential of the basic human needs approach as a way to combine growth and equity. To an extent, these new ideas emerge in the evaluations of AID, but they are most clearly expressed in a new "policy paper" on the goals of bilateral assistance, which was completed in 1978. This Bilateral Assistance

55/ U.S. Agency for International Development. Organization and Structure of AID. Task Force Report for the Administrator. Washington, U.S. Govt. Print. Off., 1977. (Hereafter cited as the Babb Committee Report.)

56/ Development Coordination Committee (DCC). Foreign Assistance Study, October 1977.

57/ Brookings Institution. An Assessment of Development Assistance Strategies, October 1977.

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Policy Paper, 58/ reinforced by a subsequent DCC Policy Paper in 1979, 59/ form the basis for AID's present development assistance policy, which in these documents is placed squarely within the context of "Basic Human Needs."

The shift in focus to basic human needs did not imply a wholesale shift in underlying development philosophy within the Agency itself. In particular, the debate between the sectoral and participatory strategies remained very much alive, with the basic human needs focus attempting to create a synthesis between these two views. In general, present policy is expressed by a statement in the 1977 Task Force Report to the Administrator (The Babb Committee Report). After examining both the sectoral and participatory approaches, the Babb Committee Report recommended that "AID's operational objectives be drawn from the Participatory and Sectoral approaches as appropriate within each recipient country context." 60/ In the current strategy, the basic objective is one which "will enable the poor, including women, in developing countries to meet their basic human needs on a suitable basis." 61/ In focusing on basic needs, this strategy "combines the employment and equity features of earlier approaches with an explicit concern for increasing the production and availability of basic goods and services for the poor majority." 62/ This meant a more direct focus on the

58/ U.S. Agency for International Development. A Strategy for a More Effective Bilateral Development Assistance Program: An AID Policy Paper. Washington, U.S. Govt. Print. Off., 1978. (Hereafter cited as Bilateral Assistance Policy Paper)

59/ U.S. Development Coordination Committee. Policy Paper: Evolution of the Basic Human Needs Concept, March 1979, Revised July, 1980. (Hereafter cited as the DCC Policy Paper)

60/ Babb Committee Report. p. 1-5.

61/ Bilateral Assistance Policy Paper, p. 1.

62/ Ibid., p. 7-8.

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needs of the individual, particularly the poor, "by postulating a minimally acceptable standard of living and then making that standard of living accessible to as many people as possible on a sustainable basis." 63/

In placing "basic human needs" at the center of development strategy, the Bilateral Assistance Policy Paper and the DCC Policy Paper seemed to follow the general recommendation of the Babb Committee Report, as they took considerable pains to emphasize that the continuities with past policies were more significant than the changes. As the Bilateral Assistance Policy Paper stated, "This strategy does not imply a change in the 'new directions' approach; rather it is a further evolution of that approach." 64/ Although it was conceded that basic human needs was a rather vague concept, and consequently subject to considerable misinterpretation, the two policy papers stressed that from the AID point of view, basic needs incorporated and extended two of the central pillars of the New Directions approach: a commitment to growth that was as important as the commitment to equity; and a focus on the participation of the poor in the benefits and process of development. In short, it was argued that the basic human needs approach represented more a change "of degree and emphasis" than any "fundamental differences" with previous AID policy. 65/

Particular attention was given to correcting "the fundamental misunderstanding" that a basic human needs strategy was merely a "welfare" or "humanitarian" approach unconcerned with growth. 66/ On the contrary, the Bilateral Assistance Policy Paper strongly argued that basic human needs was an overall development

63/ Ibid.

64/ Ibid., p. 1.

65/ Ibid.

66/ DCC Policy Paper, p. 2.

strategy in which basic human needs was "built into, rather than 'added onto,' growth." 67/ Put another way, it was argued that "the issue raised by a BHN strategy is not whether to focus on growth, but rather what kind of growth is achieved." 68/ Given such a view, it was argued that the emphasis of a basic human needs development approach must therefore focus on increasing the productive base of the economy of a developing country, but in a particular way, involving "some combination" of the following: 69/

1. Expanded access by the self-employed poor to productive resources (such as land, water, credit, and the improved techniques, tools and materials that go with them);
2. Increased investment and production in sectors and techniques that make greater use in labor surplus situations of abundant unskilled labor relative to scarce factors of production; and
3. Expanded basic services of health, nutrition and family planning, and education which improve over time the productive capacity and employment potential of the poor.

Basic human needs, therefore, was seen as a broad, comprehensive approach to development rather than as a limited welfare strategy. This strategy has some important policy implications. Most important, it does not automatically eliminate any sectors (such as industry or infrastructure) from being included in such a strategy, nor does it require the benefits to the poor to be exclusive, immediate, or direct, so long as they are "verifiable and ultimately significant." 70/ What it does require, however, is that all projects in all sectors be examined to determine their direct or indirect contribution in increasing the provision of

67/ Bilateral Assistance Policy Paper, p. 10.

68/ DCC Policy Paper, p. 4.

69/ Bilateral Assistance Policy Paper, p. 11.

70/ DCC Policy Paper, p. 9.

goods and services. 71/ By taking such a broad view, it is argued, one can assure that this strategy will promote growth, which is essential to the success of the program, while at the same time avoiding the danger of reverting to the previous "trickle-down" policies. 72/

2. Unresolved Issues in the Basic Human Needs Strategy. Although the broad policy outlines appear reasonably clear, some specific issues still remain. Perhaps the most fundamental is the question which had troubled the AID top administrators prior to 1977: was it in fact feasible to achieve rapid growth, increased employment and reduced poverty and inequality simultaneously? The Bilateral Assistance Policy Paper now argued strongly in the affirmative, contending that this employment oriented approach would lead to a more efficient use of scarce capital and abundant labor, while the provision of adequate food, health services, and education was a form of investment in human capital which could contribute significantly to the improved productivity of the poor as well as facilitating the attitude changes essential to having smaller families, thereby reducing population growth. 73/ The DGC Policy Paper, however, while advocating the basic human needs approach, presented a less certain picture, arguing that the evidence from actual country experience was mixed. In addition to presenting the argument that there need not be any trade-off between the basic human needs approach and growth, it also gave the counter argument, noting that it could be argued that technological advance may be greater in the modern sector leading to relatively greater gains in output, with little or no direct or indirect impact on meeting basic needs. If this latter view is correct, it

71/ Ibid., p. 3.

72/ Ibid., p. 9.

73/ Bilateral Assistance Policy Paper, p. 12-13.

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suggested, one would then need to defend the basic human needs investments in the non-modern sector not in terms of output alone, but in terms of the ultimate purposes and objectives that this growth serves. 74/

A second continuing and unresolved issue concerns the appropriate role for AID to play within this basic human needs approach. Because the approach is defined as a total development strategy, no sector can be automatically excluded as a legitimate target for foreign assistance. This does not mean that assistance must be provided to all sectors, however, but only that the choice of sectors will vary depending upon country needs and donor capabilities. 75/ The Bilateral Assistance Policy Paper goes further, arguing that effective assistance programming requires some degree of specialization among donors based on their capabilities and experience. Following this approach, the Bilateral Assistance Policy Paper states that AID programs "have in general been aiming in the right directions, and should continue to do so," concentrating upon the sectors in which the agency has built up considerable experience and methods for reaching the poor majority. 76/ At the same time, however, the Bilateral Assistance Policy Paper calls for a more systematic analysis of development needs on a sector or problem basis, to enhance the impact of the U.S. development assistance program. 77/ Without such a systematic analysis, it was argued, past programs had often tended to focus on "targets of opportunity." As a result, a country assistance program might resemble a cluster of rather isolated projects which,

74/ DCC Policy Paper, p. 5-6.

75/ Ibid., p. 7.

76/ Bilateral Assistance Policy Paper, p. 30-31.

77/ Ibid., p. 32.

although worthy in themselves, may not have the impact of a more systematically organized program. 78/

A third continuing unresolved issue concerns the possible trade-offs between the goals of improving productive capacity on the one hand and institution building and structural change on the other. In attempting to synthesize these two views, the Bilateral Assistance Policy Paper does not provide any particularly clear-cut guidelines. On the issue of structural reforms, the Bilateral Assistance Policy Paper does emphasize the importance of the participation of the poor, and notes that basic human needs policies:

...will often require internal structural, institutional, and economic policy reforms in order to stimulate saving and investment, widen the access to resources and employment, and increase incomes for the poor (e.g. land tenure reform, pricing policy changes, etc.) Without such reforms, the intended results of other efforts to benefit the poor can be more than offset. 79/

But although it gives this relatively strong endorsement of the need for structural reforms, it is less clear in outlining any particular procedures. In general, it suggests that the level of commitment to basic human needs in the developing country could help to determine the type of project undertaken:

The greater the commitment to basic needs objectives on the part of the host government, the stronger the case for expanded broad assistance to programs (including physical infrastructure and national institutions) that promote overall growth and employment as well as the redistributive aspects of development. 80/

78/ Ibid., p. 24.

79/ Ibid., p. 12.

80/ Ibid., p. 36.

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3. The Agricultural Policy Paper. The controversy between improving productive capacity and institution building was not confined to the general policy statement, but also emerged in specific sector strategies. This is particularly evident in the agricultural sector policy paper, which, given AID's focus on rural areas, is undoubtedly the most important of the sector papers. ^{81/} In an effort to make AID policy more precise, the early drafts of this paper included a hierarchy of considerations which could serve as guidelines to determine appropriate projects:

Functional Programs and Priorities for Agricultural Development

1. Asset distribution and access (land tenure, and local [public and private] participatory institutions)
2. Planning and policy analysis (macroeconomic and other policies)
3. Development and diffusion of new technology (research, education, extension)
4. Rural infrastructure (land and water development, energy including rural electrification, and rural roads)
5. Marketing and storage, input supply, rural industry, and credit.

The proposed hierarchy placed issues that focused on structural reform at the top. In first place was "asset distribution and access," which focused on

^{81/} U.S. Agency for International Development. Agricultural Development. Policy paper. Washington, U.S. Govt. Print. Off., 1978.

land tenure and the creation of responsive local participatory institutions, such as cooperatives. This was followed by "planning and policy analysis," which included efforts to modify macroeconomic policies in directions more "conducive to broadly participatory agricultural growth." 82/ These were then followed by more technical issues, such as technology, infrastructure, and marketing and storage.

Such a hierarchy generated considerable controversy within the agency, however, as it suggested a weighting toward what has been previously described as the participatory as opposed to the sectoral development strategy. By the final draft, the five factors were no longer considered as a hierarchy but simply as a list of factors, with the Agricultural Development Policy Paper rather blandly noting that "AID has supported activities in each of these categories and should continue to do so." 83/ The Policy Paper did, however, acknowledge the interrelationship of these factors:

Our analysis of agricultural development experience suggests, however, that if assistance in a particular category is to address both production and equity objectives successfully, some minimum level of effectiveness must be achieved in other categories. 84/

Moreover, remnants of the idea of the hierarchy of factors were also expressed in the following statement elsewhere in the paper, which stressed the importance of factors at the top of the list:

An appropriate and equitable institutional and policy framework in terms of the distribution of productive assets (especially land), local institutions (including local government), and economic policies is fundamental to any program designed to reach the poor. If the structural, institutional, and policy environment

82/ Ibid., p. 34.

83/ Ibid., p. 22.

84/ Ibid., p. 23.

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precludes broad participation of poor people in the process and benefits of development, development assistance is unlikely to benefit the poor, no matter how carefully specific activities are designed. In view of their critical contribution to the success of a broadly participatory strategy, these elements will require in every country careful mission analysis to assess their adequacy and the extent to which improvements can be brought about. 85/

At the same time, however, the Policy Paper also defended the promotion of projects in rural infrastructure, and in agricultural research, extension, and education. Although the Policy Paper acknowledged that such projects had generated some controversy within the agency on the grounds that they did not always directly benefit the poor, it was stressed that such projects should be considered, since such projects, "appropriately designed and implemented, can be a vital step in bringing cost-reducing and production-increasing technology to farmers, and hence higher incomes to the rural poor and more abundant and lower cost food to consumers." 86/ Moreover, this defense of the more production oriented approach of the agricultural programs has also been supported by the actual budgetary allocations, in which funds for programs involving land tenure and local participatory institutions, although growing, still amount to less than ten percent of the total budget, compared to about twenty percent each for the categories of technology, infrastructure, and marketing (see Table 2).

In short, the Agricultural Development Policy paper and the Bilateral Assistance Policy Paper are similar in that they attempt to synthesize or at least reach a compromise on alternative strategies within the basic needs framework, rather than embracing one particular approach. Although such a strategy does not necessarily satisfy the proponents of the contrasting points of view, it is again defended as a reasonable strategy from the point of view that each

85/ Ibid., p. 17-18.

86/ Ibid., p. 8.

Table 2

A.I.D. PROGRAM LEVELS - AGRICULTURE AND RURAL DEVELOPMENT
(\$ MILLIONS)

	FY 1975		FY 1976 ^a		FY 1977		FY 1978 ^b		FY 1979 ^b	
	\$	%	\$	%	\$	%	\$	%	\$	%
1. ASSET DISTRIBUTION AND ACCESS	<u>6.9</u>	<u>1.1</u>	<u>16.3</u>	<u>2.4</u>	<u>22.2</u>	<u>4.3</u>	<u>35.0</u>	<u>6.0</u>	<u>54.5</u>	<u>7.4</u>
a. Land Tenure	(0.4)	(0.1)	(2.6)	(0.4)	(2.6)	(0.5)	(5.0)	(1.0)	(5.9)	(0.8)
b. Local Participatory Institutions	(6.5)	(1.0)	(13.7)	(2.0)	(19.6)	(3.8)	(29.2)	(5.0)	(48.6)	(6.6)
2. PLANNING & POLICY ANALYSIS	<u>9.8</u>	<u>1.6</u>	<u>15.1</u>	<u>2.2</u>	<u>17.1</u>	<u>3.3</u>	<u>32.4</u>	<u>5.5</u>	<u>65.4</u>	<u>8.9</u>
3. DEVELOPMENT & DIFFUSION OF NEW TECHNOLOGY	<u>53.2</u>	<u>8.7</u>	<u>89.0</u>	<u>13.0</u>	<u>77.1</u>	<u>15.1</u>	<u>131.5</u>	<u>22.3</u>	<u>141.9</u>	<u>19.2</u>
a. Centrally Funded Research	(3.5)	(0.6)	(6.0)	(0.9)	(9.5)	(1.9)	(17.5)	(3.0)	(24.4)	(3.3)
b. International Centers	(10.5)	(1.7)	(15.7)	(2.3)	(20.6)	(4.0)	(24.0)	(4.1)	(26.6)	(3.6)
c. Bilaterally Funded Research	(15.4)	(2.5)	(18.0)	(2.6)	(22.0)	(4.3)	(48.6)	(8.2)	(62.9)	(7.2)
d. Education and Extension	(23.0)	(3.9)	(49.3)	(7.2)	(25.0)	(4.9)	(41.5)	(7.0)	(38.0)	(5.1)
4. RURAL INFRASTRUCTURE	<u>238.8</u>	<u>39.0</u>	<u>205.0</u>	<u>30.0</u>	<u>233.4</u>	<u>45.7</u>	<u>246.0</u>	<u>41.7</u>	<u>311.8</u>	<u>42.3</u>
a. Land & Water Development & Conservation	(137.0)	(22.4)	(146.3)	(21.4)	(134.9)	(26.4)	(115.3)	(19.6)	(163.3)	(22.1)
b. Energy, incl. Rural Electrification	(25.5)	(4.2)	(0.3)	(0.0)	(36.1)	(7.1)	(57.3)	(9.7)	(78.0)	(10.6)
c. Rural Roads	(76.2)	(12.4)	(58.4)	(8.6)	(62.4)	(12.2)	(73.4)	(12.4)	(70.5)	(9.6)
5. MARKETING & STORAGE, INPUT SUPPLY, RURAL INDUSTRY, & CREDIT	<u>303.4</u>	<u>49.6</u>	<u>357.0</u>	<u>52.3</u>	<u>161.9</u>	<u>31.6</u>	<u>144.7</u>	<u>24.5</u>	<u>164.1</u>	<u>22.2</u>
a. Marketing & Storage	(32.9)	(5.4)	(38.4)	(5.6)	(40.3)	(7.9)	(20.2)	(3.4)	(39.3)	(5.3)
b. Input Supply	(200.0)	(32.7)	(234.5)	(34.4)	(86.6)	(16.9)	(71.3)	(12.1)	(80.8)	(11.0)
c. Rural Industry	(23.2)	(3.8)	(12.5)	(1.8)	(25.7)	(5.0)	(15.0)	(2.5)	(2.4)	(0.3)
d. Credit	(47.3)	(7.7)	(71.6)	(10.5)	(9.3)	(1.8)	(38.2)	(6.5)	(41.6)	(5.6)
TOTAL	<u>612.1</u>	<u>100.0</u>	<u>682.4</u>	<u>100.0</u>	<u>511.7</u>	<u>100.0</u>	<u>589.6</u>	<u>100.0</u>	<u>737.8</u>	<u>100.0</u>

SOURCE: Figures based on Development Assistance appropriation, Food and Nutrition account, excluding nutrition and program development funds; (a) FY 1976 figures include transitional quarter; (b) FY 1978 and FY 1979 figures include Sahel programs. Columns may not add due to rounding.

Source: AID. Agricultural Development Policy Paper. June, 1978, page 25.

country represents a special case, with no one set of specific guidelines adequate for all cases. As the Bilateral Assistance Policy Paper states:

While the broad objectives of a basic human needs policy are universal, the problems which must be addressed in reaching the objectives are, of course, country-specific. In one country, policy changes to affect the distribution of income and assets may be most important; in another, it may be introducing appropriate technology and providing access to services; in a third, inadequate physical infrastructure and the scarcity of capital investment in productive enterprise may be critical constraints. The programming of development assistance must, therefore, be country specific and flexible enough to assist in dealing with the concrete problems that must be resolved if basic human needs are to be met. 87/

d. Recent Developments and the Role of IDCA

As the result of a presidential reorganization in 1979, AID was removed from the State Department and placed under the newly-created International Development Cooperation Agency (IDCA). IDCA was to have overall responsibility for coordinating United States development policy. Although the impact of this reorganization upon AID is not as yet entirely clear, one tangible change has been a slight shift in sector emphasis. Although agriculture and health and population remain as two of the major sectors of concentration, the third sector emphasized by IDCA was energy as compared to the AID emphasis on education. 88/ One should be careful not to exaggerate the consequences of this shift, since the Congress in its legislation since 1975 has included increased attention to energy issues (section 106 of the Foreign Assistance Act). And, within AID, the education sector had been the smallest of the three mandated sectors. However, by no longer making education a priority sector, IDCA appeared to be signalling to AID that the education account cannot be expected to grow

87/ Bilateral Assistance Policy Paper, p. 31.

88/ U.S. International Development Cooperation Agency. Congressional Presentation, Fiscal Year 1981. pp. 13-18

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significantly, and that the burden of proof is on AID to demonstrate, for each of its education projects, that it does, in fact, have a comparative advantage, and plays a unique role among donor nations. ^{89/} How the all but effectuated dismantlement of IDCA by the Reagan administration will affect future sectoral allocations is unknown.

e. Summary: The Characteristics of AID Policy

While this overview of the evolution of AID policy does suggest the general commitment of AID to a specialized role within the New Directions philosophy, it also points to a variety of debates that continue to characterize the policy process. In regard to AID's new, more specialized role, for example, how narrowly is it to interpret the Congressional mandate: Is it possible to approve projects in which the poor are largely indirect rather than direct beneficiaries? Within the poor majority, which groups should be the focus of attention? Is there a necessary trade-off between emphasizing production and institution-building? Working within a "collaborative style," to what extent, and in what ways, can AID encourage skeptical nations to adopt a growth with equity approach? To what extent does AID need to take account of political obstacles, and how can these be overcome?

In general, the AID response to these questions has been to point out the uniqueness of countries and situations, and stress the need for case-by-case solutions guided by the New Directions framework. In essence, what this means operationally is that any policy beyond the somewhat vague guidelines of the various policy papers and statements is (or should be) determined in the communications between AID Washington and the individual missions. Any complete discussion of policy-making must therefore also include an analysis of the links between headquarters and the field, and the implications of these links for policy.

^{89/} Airgram AID-35, October, 1980.

4. OPERATIONALIZING THE NEW DIRECTIONS POLICIES

In addition to the above-mentioned efforts to establish general policy guidelines for the New Directions mandate, AID officials have also been involved in extensive examinations of AID policies in two other areas that have had important implications for New Directions. One of these has been to assess the "commitment and progress" of recipient countries in reaching the New Directions goals. The second area has been a reevaluation and major modification of the Agency's planning and budgetary procedures. While these two policy reviews began on essentially separate tracks, the resulting policies have recently been merged together and now represent, implicitly, if not explicitly, AID's most comprehensive attempt to establish a framework to operationalize New Directions policies for the individual recipient nations. For this reason, it is important to examine the evolution of these two sets of policies,

a. Determining Recipient Commitment and Progress -- Section 102(d)

In December 1975, Congress added section 102(d) to the Foreign Assistance Act, which, in the words of one AID official, was designed to attempt to provide "teeth" for the New Directions program. Specifically this focused on the development and strengthening of performance criteria that could be applied to the recipient countries. Under 102(d), it was required that "the President

shall establish appropriate criteria to assess the commitment and progress of countries" towards the goals outlined in the legislation. 90/ Further, section 102(d) required that

In establishing such criteria the President shall specifically take into account their value in assessing the efforts of countries to (1) increase agricultural productivity per unit of land through small farm labor-intensive agriculture; (2) reduce infant mortality; (3) control population growth; (4) promote greater equality of income distribution...; (5) reduce rates of unemployment and under-employment.

The initial AID response to this was the preparation of a report entitled Socio-Economic Performance Criteria for Development, 91/ which was completed in February 1977. This report described at some length the technical assistance, research, and analytical activities needed to encourage the effective long-run implementation of Section 102 (d). On the issue of developing criteria to measure these activities, however, it was more equivocal, stressing the conceptual and data problems involved.

Disappointed with the approach as outlined in the report, Congress stressed more forcefully the need to develop criteria. At about the same time, the change of Presidential administrations was occurring, bringing into AID some seniors officials who were more receptive to the idea of creating

90/ These goals were also spelled out in Section 102(c), which stated that "Assistance...should be used...to help countries solve development problems in accordance with a strategy that aims to increase substantially the participation of the poor. Accordingly, greatest emphasis shall be placed on countries and activities which effectively involve the poor in development, by expanding their access to the economy through services and institutions at the local level, increasing labor-intensive production, spreading productive investment and services out from major cities to small towns, and outlying rural areas and other wise providing opportunities for the poor to better their lives through their own effort."

91/ Agency for International Development. Socio-Economic Performance Criteria for Development: A Report on the Assessment of Commitment and Progress Submitted by the U.S. Agency for International Development Pursuant to Section 102(d) of the Foreign Assistance Act. (Washington, D.C., February 1977)

such criteria. The need for some indicators of effectiveness was also examined in the general evaluations of AID that the new Administration carried out in 1977, most notably the Foreign Assistance Study of the Development Coordination Committee (which stressed the idea of "performance") 92/ and the Brookings Report which stressed the need to encourage "sound growth with equity policies." 93/

Following the new Congressional directives and the shifts within AID brought about by the new administration, work began on a study which would focus more explicitly upon the proposed criteria for carrying out 102(d). Beginning with an examination of the legislation and legislative history, the Bureau for Program and Policy Coordination (PPC) established a large number of potential criteria and factors. Consultations were then held with "knowledgeable persons" both inside and outside of AID, as well as with the missions, and the list of criteria and factors was subsequently narrowed to those which AID felt would be broadly applicable across countries, were conceptually clear, and had the "power to discriminate among degrees of commitment and progress." 94/

The final report was issued on January 31, 1978, and included a list of thirty-seven separate factors, grouped under the following seven criteria: 95/

- (1) The extent of participation in economic development by the poor,

92/ Development Coordination Committee, Foreign Assistance Study: October 1977, Op. cit.

93/ The Brookings Institution, Interim Report: An Assessment of Development Assistance Strategies, October 1977, op. cit.

94/ Agency for International Development. Proposed Criteria and Factors for Assessing Country Performance: A Report Pursuant to Section 102(d) of the Foreign Assistance Act. January 31, 1978, (Mimeo) p. 3.

95/ For a complete list of the factors, see Ibid, p. 3.

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- (2) The extent to which government policies contributed to sustainable growth,
- (3) The extent to which government policies increased the productivity and utilization of labor,
- (4) The appropriateness of policies to increase small-farm productivity,
- (5) The extent to which health activities emphasized low-cost, accessible delivery,
- (6) The extent of attention to accessible family planning, services and motivation for smaller families,
- (7) The degree of access to education for basic life skills.

In presenting these criteria, however, the report noted that this work was still in the preliminary stages and subject to further testing and refinement. It also re-emphasized one of the conclusions of the previous report, noting that accurate data for implementing 102(d) were often unavailable, particularly in the poorest countries. 96/ Finally, the report concluded that "flexibility" would be needed in applying the factors under each criterion to specific countries, given their different situations:

...the decentralized approach of the U.S. foreign assistance program is premised in large part upon recognition of crucial difference among recipients, even among countries in the same regions. The means to achieve broadly participatory development may be quite different among countries, given their different histories, socio-political and economic systems, infrastructures and resources, and so forth. We recognize accordingly that there must be flexibility in applying the factors under each criterion to specific countries, in accordance with the countries' own needs and problems, their various declared development approaches, and data availabilities. 97/

In essence, then it appears that AID did engage in sincere efforts to provide commitment criteria consistent with the 102 (d) legislation, which in theory could help to make AID policy more precise. But although such criteria

96/ Ibid, p. 2.

97/ Ibid, p. 9

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were now to be factored into the AID planning system, they also suffered from the problem inherent in all AID general policy guidelines: given the premise that recipient countries differed from each other, the need for "flexibility" in interpreting guidelines made it difficult to have a precise policy that would serve for all situations. The forming of truly operational guidelines, therefore, still depended upon the communications between Washington and the field. Consequently, it is important to examine the programming process itself, and the implications that this had for policy.

b. Reforming Programming Policies: IPA and CDSS

Reforms in AID programming procedures were initiated in a small way as early as 1972 when the Agency began, on its own, to consider concentrating more on basic human needs. The first major thrust at programming reform, however, occurred between mid-1974 and mid-1975, as the Agency attempted to modify its policies and procedures to become more consistent with the 1973 New Directions legislation. The results of this exercise not only reduced the then existing three categories of AID assistance (technical, capital, and program) to two (project and nonproject), but it also introduced such techniques as the logical framework, and social soundness and beneficiary analysis. In addition, the basic programming documents which, with some exceptions, continue to exist in the AID project cycle were introduced. ^{98/}

With the change of administrations in 1977, AID programming procedures were again reviewed. On August 31, 1977, the AID Administrator established a

^{98/} For a fuller description, see AID, Implementation of "New Directions" in Development Assistance: Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973. Washington, U.S. Govt. Print. Off., July 22, 1975, op. cit. p. 25-29.

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Task Force on Program Procedures, chaired by the Assistant Administrator of PPC, Alexander Shakow, and including the Assistant Administrators of the regional and functional bureaus. Among other items, the Task Force was asked to make recommendations on the setting of AID funding levels for individual countries, as well as evaluating the adequacy of the existing AID system for establishing country strategies.

The Task Force recommended against continuing the existing system of setting annual AID levels characterized as a "bottom-up" or "building block" approach. Under such a system, it was argued it was difficult to break away from historical allocation patterns which did not necessarily correspond to the current AID objectives, expressed both in the legislation and in internal AID documents, of allocating assistance among countries in ways that would do the most to benefit the poor. 99/

In place of the existing allocation system, the Task Force recommended an approach which began with "top-down planning and allocation of funds among countries on the basis of certain criteria." 100/ Under this approach, which was subsequently implemented in 1978, AID was to move to a system for setting annual funding levels for countries by starting with an "Indicative Planning Allocation" (IPA) determined in Washington, which would be "successively refined by iterative process involving field missions and AID/W." 101/ Essentially, the IPA for each country was a preliminary estimate of its projected share of the total estimated annual funding that might be available for five

99/ AID Action Memorandum for the Administrator, (from Program Procedures Task Force/Alexander Shakow, February 3, 1978, (mimeo), p. 2,6.

100/ Ibid, p. 2.

101/ Ibid.

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years in the future. This country share was to be determined by using the "best available" macro indicators of two factors: need (which included population and per capita income as the two variables) and commitment (based on 102(d) considerations). The country share was limited by placing a ceiling of 25 percent of the total as the maximum share any country could receive (which had the affect of reducing the amounts for India's share) and a floor of \$5 million (which raised the amounts of about six countries). 102/

Using the Indicative Planning Allocation as a starting point, the field missions were then to prepare a "Country Development Strategy Statement" (CDSS), which was to be updated annually. 103/ The CDSS was to be "the basic analytical strategy and planning document of AID for individual countries." More explicitly, its purpose was "to express the Mission's understanding of the overall development problems and issues, propose what objectives, policies and programs AID should pursue, and explain the reasoning behind the choice." 104/ Using the IPA, AID general and sectoral policy papers, and any regional or country specific guidance as background, the CDSS was to be prepared by the missions in three sections: The first section examined the background, including a description of the poor, identification of the causes of poverty, an evaluation of country progress and commitment, a description of the host country plan, an analysis of absorptive capacity, and a description of other donors.

102/ A fuller description of this is provided in an AID Washington airgram to the missions, entitled "Guidance for the Country Development Strategy Statement (CDSS)," Airgram A-384, September 16, 1978, p. 6.

103/ The CDSS replaced the "Development Program Paper" (DAP) which had previously served in theory as the planning base for country programs, but was felt by the Task Force to be so ineffective in establishing AID strategies that was "moribund if not dead and should be laid decently to rest as quickly as possible". AID Action Memorandum for the Administrator, op. cit, p. 8

104/ Airgram A-384, op. cit, p. 2.

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The second section described the AID assistance strategy in the light of the issues raised in the first section. The third section then presented proposed funding levels for the five year period. In essence, the CDSS represented not only a long term planning document, but also a way for the missions to respond to the IPA in cases in which the mission officials thought the level was inappropriate.

The CDSS was then to be reviewed and approved in Washington, with its strategy and aid planning levels modified if necessary. The Washington review also was to result in the approval of a level of funding for the next fiscal year for which a budget was to be prepared. The field missions then were to develop and submit to Washington their detailed budgets for that year. These budgets would then be further adjusted in Washington if the actual budget approved by Congress was different from the planned budget. 105/

In theory, at least, this process provided an opportunity for reasoned dialogue between Washington and the missions. A dialogue in which the missions could demonstrate, if necessary, what they felt were the inadequacies in the IPA. And, although the first IPA issued in Washington was necessarily a "Washington exercise", the second IPA issued in 1979 did take into account the comments from the field from the first round of CDSS reports, as well as from an elaborate set of expert panels in Washington. In general, AID Washington appeared pleased with the first CDSS exercise in 1978. AID Washington did point out, however, that the CDSS reports were uneven in quality, and often were inadequate in relating the first section of the CDSS (describing problems) to the second (describing AID strategy), and the third (which provided proposed funding levels). In addition, it was noted that "a disappointly high number"

105/ Congressional Presentation, FY 1980, p. 176-178.

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of missions were unable to identify the poor in any sophisticated way; also, a majority of missions were not able to provide an adequate analysis of the "progress and commitment" of the recipient nation towards equity and growth strategies. 106/

In the second year of the CDSS system (1979) the process appeared smoother. however, there were still considerable difficulties in attempting to measure progress and commitment. Early in the year, AID Washington sent separate instructions to the missions to obtain information on these two factors, so that this data could be included in the calculation of the IPA figures. Unfortunately, this effort to obtain from the missions a precise measure of progress and commitment proved to be a failure. Based on the quantitative indicators developed for the 102(d) exercise (see page 46 above), this attempt was not only difficult, but produced data that were not comparable between countries.

As a result of this experience, two changes were made in the procedure for the third year (1980). First, it was decided to incorporate the determination of commitment into the CDSS rather than treat it as a separate exercise. Since this meant that this information would now come too late to be used to create a new Indicative Planning Allocation, it was agreed not to generate a new IPA for this third round of the CDSS, but simply extrapolate from funding levels approved for the previous year. In the future, it was agreed that new IPAs would be generated, factoring in the previous year's CDSS statement on commitment. In essence, this marked the formal integration of the efforts at determining commitment under 102(d) and the programming reforms using the IPA/CDSS system, which

106/ For a detailed analysis of the first round of the CDSS, see, AID. Memorandum from Raymond Malley to Alex Shakow, then Director of PPC, "CDSS Post-Mortem and Recommendations for Future". September 19, 1979.

until then had been following separate if somewhat parallel tracks.

The second change in programming procedures and policies was a move towards a more qualitative approach in the determination of commitment. Instead of the list of quantitative indicators, AID Washington now provided the following set of general questions to be answered under the section on "recipient commitment" in the CDSS. 107/

1. To what extent do macroeconomic factors inhibit or enhance the ability of the poor to raise their incomes?
2. Is the government involved in increasing employment, and do the pricing system and other government policies work so as to encourage employment generation?
3. Is access to productive resources (particularly land, but also infrastructure, water, credit, research and extension networks) widespread: If access is limited, what is being done about it?
4. What have been the Trends of government budget allocations to the health and education sectors, and is there equitable access to health and educational services?
5. How effective is the administrative system?
6. How is the government dealing with natural resource depletion where this is a problem?
7. How well do government policies and programs address the problem of high fertility rates?
8. How responsive is the political structure to the needs of the poor
9. How mobile is the society?
10. How much control is there on the free flow of information?

107/ For a fuller description, See airgram AID-35, October 1980.

It is too early to evaluate the response from the missions regarding these questions, but the shift appears to illustrate a continuing problem in AID programming. While moving away from specific indicators provided flexibility for the missions (and avoided the complaint that the previous effort was too mechanistic), it is difficult to say with certainty how responses to these questions will be any more precise or comparable between nations. Like more general policies, it appears that the commitment question also faces the problem of "unique cases", which makes the establishment of precise and simple guidelines virtually impossible, except at the most general level.

c. Implications

The difficulty in establishing precise guidelines for discussions with the missions raises the larger issue: Does the new IPA/CDSS system offer the promise of giving more precise and operational meaning to AID policy? Proponents of the system would argue that the new procedures do represent an important new step forward. The remaining conceptual and methodological problems are seen as largely those of fine tuning to be solved through experience. Others would see the unevenness of the current efforts (such as the wide variation in the sophistication of the CDSS reports) as reflective of the need to improve skills and staff in the agency, rather than pointing to any inherent weakness in the system itself. 108/

108/ For example, the Program Procedures Task Force argued that "no new guidance or procedures will make a real difference in the effectiveness of AID in achieving bilateral development assistance objectives unless AID is staffed, organized, and managed to meet those objectives...current staff deficiencies must be addressed immediately if recommended changes in program procedures are to increase effectiveness. AID simply does not have enough high quality technicians, program officers, project officers, economists and social scientists working on bilateral development assistance programs." AID Action Memorandum for the Administrator, op. cit. p. 1-2.

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Viewed from another perspective, however, it is possible to suggest that the current weaknesses stem not only from staffing problems, but, more important from difficulties inherent in conceptualizing the development process itself. 109/ For example, in the CDSS, did the difficulty which many of the missions experienced in presenting such a basic statement as the causes of poverty in the recipient nation stem from a lack of technical skill, or from difficulty in conceptualizing in theoretical terms the relation of various factors in development with precision? If the problem is one of conceptualization, to what extent does this reflect a lack of training, and to what extent does this reflect the disarray of the discipline? Clearly, individuals holding different theoretical views (such as the sectoral vs. the participatory models of development) will have different underlying assumptions and prescriptions. This conflict is at least implicitly recognized in the most recent instructions to the missions regarding the CDSS preparation, which noted that

We wish to underscore the fact that the CDSS is a product of the entire country team and should reflect its views. To the extent that there are differing views, they should be candidly reflected in the document itself or in separate messages, as appropriate. 110/

But providing space for differing views does not give much direction as to which path to take. Ironically, the AID 1975 Report to the House International Relations Committee noted, in another context, that "even an excellent system will not succeed without clear policy guidance...." 111/ The 1975 Report went

109/ For example, see Michael T. Rock, A Critique of Sec. 102(d) of the Foreign Assistance Act, (AID/ASIA/DP,Mimeo), July 25, 1979 (draft).

110/ Airgram AID-35, October 1980, op. cit, p. 1.

111/ AID Implementation of "New Directions" in Development Assistance, op. cit. p. 29.

on to note that such guidance was being provided through through policy statements, definitions, and other documents, 112/ but in fact, the "guidance" provided by these documents appears to be too general to offer operational policy guidelines on a case-by-case basis. The inability to establish such guidelines has not been due to a lack of effort on the part of AID but appears more an inherent feature of the complexities of the development process itself.

In sum, the IPA/CDSS system may help to make the conceptual debates more explicit, which may be an important advantage if AID sees its role as an "experimental" organization and attempts to use its projects as ways to test these alternative views. In the absence of agreement on an accepted general theory of development, however, the IPA/CDSS system will probably be unable to formulate precise policy guidelines. AID policies themselves, after all, represent attempts to synthesize alternative development conceptualizations, while taking into consideration the unique features presumed important in each nation. Given the rather vague policy guidelines that inevitably result, it is unlikely that adequate instructions can be formulated that operationalize policy in every case.

112/ Ibid.

Major AID Policy and Policy-Background Documents, 1972-1981

- 1972: Policy Determination #48: Employment and Income Distribution Objectives for AID Programs and Policies. October 2, 1972. (and) Employment and Income Distribution Objectives for AID Programs and Policies: Policy Background Paper, AID, October, 1972.

Establishes a new AID policy to encourage employment generation and income distribution policies.

- 1975: AID Implementation of New Directions in Development Assistance: Report to the Committee on International Relations on Implementation of Legislative Reforms in the Foreign Assistance Act of 1973. July 22, 1975.

First comprehensive report of AID responses to "New Directions." Includes a commitment to the "small farmer" strategy as the best way to meet the dual objectives of increased food production and greater equity (although the definition of small farmer is left somewhat vague). Efforts are also made to define "the poor", "rural development", "participation" and other key concepts. Ambiguities, dilemmas, and tradeoffs in the approach are examined. AID accepts the role of a "specialized" development agency, focusing primarily on the congressionally-mandated sectors.

- 1977: AID. Organization and Structure of AID: Task Force Report for The Administrator, Agency for International Development, October 1977. (Also referred to informally as the "Babb Committee Report").

Outlines a wide variety of policy and organizational questions, including a discussion of the "sectoral" and "participatory" development strategies. Recommends particular AID organizational structure.

Development Coordination Committee (DCC). Foreign Assistance Study, October, 1977.

General study of foreign assistance, including the drafting of alternative policy scenarios for consideration by the President.

The Brookings Institution. An Assessment of Development Assistance Strategies, October, 1977.

An "outside" evaluation of U.S. development assistance, prepared for the Secretary of State.

- 1978: AID. A strategy for a More Effective Bilateral Development Assistance Program: An AID Policy Paper. March, 1978.

The basic AID policy document defining present policy. Places the AID "New Directions" approach within the context of a

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"basic human needs" strategy. The Paper emphasizes that (a) this represents a "further evolution", and not a shift in policy, and (b) that the commitment to growth as well as equity remains unchanged (basic human needs is not viewed as a "welfare" strategy.)

Basic human needs implies, to AID, an effort to increase the productive base of an LDC economy in a specific way, involving "some combination" of (a) expanded access by the poor to productive resources, (b) increased focus on employment-generating sectors and activities, and (c) expanded basic services that improve productive capacity.

AID. Agricultural Development: Policy Paper, June, 1978.

The most important sectoral policy paper. Sets policy for the agricultural sector, by listing (but not assigning priorities to) appropriate areas for AID activities.

1979-80: DCC Policy Paper: Evolution of the Basic Needs Concept.
March, 1979, revised July, 1980.

Essentially a further elaboration of the basic AID Policy Paper of 1978 (see above.)

III. B. AID INSTITUTIONAL CHANGES FOR NEW DIRECTIONS*

1. INTRODUCTION

This section will discuss the organization issues, the management systems within the Agency, incentives for administrative performance, and the formal and informal rewards for those who have been endeavoring to implement New Directions since their enactment. These issues will be discussed throughout the sections which follow: AID's organizational history, and the project approval process.

2. AID'S ORGANIZATIONAL HISTORY

The Agency for International Development was constructed in 1961 by pulling together several different programs which had been previously administratively autonomous. It was assumed at that time that the Agency would be temporary; once development objectives were achieved it would be disbanded. ^{1/} This fact was highlighted by Judith Tendler in her study, Inside Foreign Aid. It was also given at different times as part of the major justification for not

*The contents of this section are based upon interviews conducted at AID with AID officials in November and December 1980 and January 1981 and on the documents cited.

^{1/} For example, the Kennedy, Johnson, and Nixon Administrations requested Congress to allow certain AID personnel to participate in the State Department's Foreign Service Retirement and Disability System. The requests were turned down by Congress because "we do not wish to take an action that would confer permanent status on the Agency." Hearings Before the Committee on Foreign Affairs, 91st Congress, 1st, p. 901. See discussion in Tendler, Judith. Inside Foreign Aid. Baltimore, Johns Hopkins University Press, 1975. p. 14-15 and footnotes 18, 19, p. 114.

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instituting major personnel changes. 2/ As changes in overall agency policy direction occurred they were grafted onto that initial temporizing legislative foundation. 3/ During the early years of the Agency's life, the 1960s, it was caught up in Vietnam. Following Vietnam, the Agency was significantly reduced in size, significantly reorganized in 1972, again in 1978, and put under the auspices of the newly created International Development Cooperation Agency in October, 1979.

In 1961, AID was an agency within the Department of State. The organization consisted of four regional bureaus, each headed by an assistant administrator, seven functional offices, and supporting staff. Field missions worked within countries, and were, as they continue to be, headed by mission directors who are responsible to the Ambassador as well as to their regional bureaus and AID Washington. The American Ambassador remains the final arbiter concerning development assistance strategies within a country. He also files a performance report on the record of the Mission Director each year. In 1979, when the Agency in 1979 was moved from Department of State to be under the International Development Cooperation Agency, this relationship within the host country remained unchanged.

The Agency then, as now, was physically scattered among different locations in Washington. As new functions were added to its agenda, new offices were

2/ Mentioned in several interviews, including one with Anthony Babb, Director of the AID Reorganization Task Force, who said this factor was cited as a reason against the personnel system changes recommended by what was informally called the Babb Committee Report.

3/ Asher, Robert, op. cit., strongly recommended in 1970 that the 1961 legislation be replaced as it had been "amended almost beyond recognition." p. 220. The New Directions changes were added, however, to the 1961 legislation as it stood.

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established, and often they were housed in locations at some distance from the main State Department Buildings. Because of its "temporary" mandate, arguments for contiguous locations for similar functions were largely disregarded. Problems of coordination in the Agency were, and continue to be compounded by its dispersed physical facilities.

Both the President, as Chief Executive, and Congress, as legislature, directly determine the Agency's mandate and organization. While the New Directions policies, passed in 1973, were congressionally mandated changes in the law governing the agency, prior to their enactment, in September 1969 and April 1971 President Nixon had proposed major reorganizations of the agency in Presidential Messages. The major thrust of these changes, both procedural and organizational, was to centralize the agency. They brought together under central direction overseas private voluntary programs, disaster relief, and population activities; created a new Bureau for Asia from a former bureau and office; centralized in a single Bureau for Program and Management Services agency support services in training, contracts, commodity procurement, and management planning; and reorganized the Bureau for Program and Policy Coordination.

Following his reelection, President Nixon appointed new agency leadership: Administrator Daniel Parker (January 1973-January 1977) and John Murphy, Assistant Administrator. Murphy also subsequently served as Administrator from January 1977-March 1977. Both Parker and Murphy were committed to a highly centralized model of Agency management. According to some, as Republican appointees, they were not deeply committed to New Directions policies which were seen as the policies ordered by a Democratic Congress.

Parker and Murphy's backgrounds were not in development, but rather in business management. Their conception of the Agency was that it was fragmented,

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lacked sufficient central direction, and that the President wanted a reorganized and tightly run agency. Committed to internal efficiency they set about to build a computerized agency information system which would be capable of displaying data on a terminal in Murphy's office. This information system came to be called PBAR, an acronym for Planning, Budgeting, Accounting and Reporting. PBAR consisted of a central data collection system with four subsystems: country program data, project account data, development information, and social and economic indicators. It functioned as a control system; all program and project data were included and could be recalled by the deputy administrator while discussing programs with mission and bureau officials. Many Bureau leaders and mission officials objected to the system, arguing that it reduced their ability to respond flexibly to changing situations. It was claimed that it also reduced innovation in project design and management, and to the extent that New Directions projects were different from traditional projects, the system supposedly operated against them. It required, for example, that many more details be made explicit initially for projects. Proponents of projects which were supposed to be participatory projects felt the projects needed just the reverse -- decisions should be left up to an ongoing process involving beneficiaries and organizations. ^{4/}

The next AID Administrator, John Gilligan (March 1977-1978) was appointed by President Carter. Many in the Agency had expected that leadership more committed to New Directions policies was coming, and that therefore administrative changes which might enhance the programming of New Directions projects was more possible. Also, Gilligan and some of his key appointees were convinced

^{4/} See doctoral dissertation, Stout, Russel A Critique of Organizational Control Systems Berkeley University, Berkeley, California, 1979 for a complete account and criticism of the PBAR system.

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that the Agency needed some changes, which would facilitate the implementation of New Directions projects. Gilligan's first move was to dismantle the centralizing PBAR system; his second major move was to ask Anthony Babb to form a task force on reorganizing the Agency in June 1977. Anthony Babb had once worked for AID but was no longer with the Agency when approached by Gilligan. Gilligan's initial strategy, which was to cost him support within the agency was to impose reorganization from outside. Babb was more interested in change from within, arguing that the nature of the agency and its long term employees would defeat changes imposed from the outside by a wholly external task force.

The Babb Committee Report surveyed in detail six different organizational models. ^{5/} The report's detailed summary of the six models is attached in the appendix, and is not summarized at this point. The Babb Task Force preferred a decentralized model which would have more people and authority residing in the AID field missions, more authority in headquarters regional bureaus which were to support those missions, and smaller central bureaus to provide services common to all regional bureaus. The Task Force would also establish a new Rural Support Bureau. Since the New Directions policies entailed a specific focus on rural development and small farmer participatory strategies, the idea behind this new office was to provide a locus of responsibility within the Agency for supporting these kinds of projects. The Babb Task Force also covered the personnel problems within the agency and financial management and procurement.

Since its inception in 1961, AID has undergone three reorganizations: in 1972, 1978 and 1979 (See appendix A). The first of these predated the New

^{5/} Task Force Report for the Administrator, Agency for International Development: Organization and Structure of AID. October 1977. (Referred to hereafter as the Babb Committee Report.)

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Directions mandate. The last had as its purpose the consolidation and improved coordination of various U.S. Government foreign aid activities under the new IDCA and reflected little or no consideration of the New Directions approach. The 1978 reorganization, however, was carried out partly to achieve the objectives of the New Directions mandate. Many of the Babb Committee recommendations were approved by the AID Administrator. Among the changes instituted with the aim of supporting New Directions strategy more effectively were the establishment of a new Bureau for Private and Development Cooperation with responsibility for encouraging increased participation of private and non-governmental institutions and the strengthening of the role of the Geographic Bureaus by the transfer of selected country and regionwide programs, and associated staffs.

Following Gilligan's resignation, Administrator Douglas Bennett (November 1978-January 1981) continued Gilligan's decentralization policies while also making the adjustments necessary within the Agency as it was moved from the Department of State to the newly created International Development Cooperation Agency. Because of his background and experience within an AID mission, Bennett enjoyed more support from the field missions than most AID administrators. One of Bennett's major concerns was with evaluating the impact of AID projects. Towards this end he devoted considerable time and energy to the strengthening of the Office of Evaluation and what came to be called Bennett's Impact Evaluation studies.

3. CURRENT AID PROGRAM RESPONSIBILITIES AND STRUCTURE

AID, in 1981, administers development assistance, the Economic Support Fund, (formerly called security supporting assistance), and the Food for Peace

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Program. Policy responsibility for Title I of the Food for Peace Program resides within the Department of Agriculture, while Title II programs are coordinated by IDCA, and administered by AID. The AID agency consists of eight bureaus and nine program offices which operate through some 62 missions located within the countries receiving development assistance or economic support funds. These missions are supported by regional bureaus in Washington.

Within the AID Washington Headquarters, the Bureau for Policy and Program Coordination (PPC) coordinates policy and oversees agency management of those policies. However, because different programs have different constituencies, different histories, and differential access to Congressional support, in actual practice PPC is only primus inter pares in policy making. Regional bureaus exercise considerable autonomy over policy choices, arguing that differences in the factors of underdevelopment vary with regional characteristics. And some field missions have had more influence than others on policy options and practices because of their leadership, their roles within their bureaus, and the strategic importance of the country concerned. Writing about the "inner environment" of technical assistance, an observer of the Agency has said that technical assistance agencies in general are not coherently programmatic with clear bureaucratic lines supported by staff. ^{6/} Rather, he argues, they have many interdependent components held together by shared concerns, rules, inertia, and some positive integrating mechanisms, like programming processes. According to Siffin, this environment gives rise to the bureaucratic "entrepreneur" who seeks friends at court and assembles muscle for his part of the organization. Policies in organizations like

^{6/} William Siffin, "The Inner Environment of Technical Assistance Agencies," (PASITAM, Indiana University, 1979).

AID are often a negotiated set of positions. In varying degrees, those with conflicting interests will interpret policy premises differently. 7/ Their success in doing so is a function of their access to resources within the organization.

In any organization, some creativity is required to do that which the organization espouses but does not consistently reward. AID's structure and systems espoused New Directions but in many cases did not consistently reward those who labored on programming New Direction projects. 8/

4. THE PROJECT DESIGN AND IMPLEMENTATION PROCESS

The New Directions mandate opened a new era for AID. Prior to the mandate, projects often dealt with large infrastructure undertakings such as dams, roads, large public works, and agricultural research and development. These projects were conceptualized and designed on the assumptions of the economic development models of the 1950s: that growth would trickle down, that capital investment was key, and that increasing social and economic inequity was likely. 9/ The New Directions changes implied significant differences for project design and implementation.

7/ For a good summary of organization theory with special attention to the issues of compliance and organizational behaviors, see Heginbotham, Stanley. *Cultures in Conflict: The Four Faces of Indian Bureaucracy*. New York, Columbia University Press, 1975. For a discussion of organizational behavior generally, see James, and Herbert Simon. *Organizations*. New York, John Wiley & Sons, 1958, and for a discussion of types of bureaucratic behavior see Downs, Anthony. *Inside Bureaucracy*. Boston, Little Brown and Company, 1967.

8/ Judith Tandler's book, *Inside Foreign Aid* op. cit., contains a detailed analysis of the ways in which AID's incentive system does not reward espoused organization goals and policies.

9/ For a summary of these models see Michael Todaro, *Economic Development in the Third World* (London: Longmans, 1977). James Weaver and Kenneth Jameson, *Economic Development: Competing Parables*, Development Studies Program, Occasional Paper No. 3 (Washington, D.C. AID, 1978).

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a) Meeting Basic Human Needs. Among the differences the new approach entailed was that New Directions projects were to attempt to meet poor peoples' needs directly. An assumption was that meeting these needs would improve their potential for productivity and thus increase their chances to meet their own needs in the future. Their needs were defined to include food, work, shelter, and minimal health and literacy. The rural poor could only produce more if they had access to some land, water, animals, seed, and tools. And they could only produce more if they were healthy enough to get to those fields and use those tools. Projects to address those factors would have to be designed differently from projects to build dams or highways.

b) Participation. The legislation governing the agency had, since 1968, specified that the poor were to be participants in the planning and implementation of development projects. ^{10/} That provision of the law took on greater significance with the New Directions changes. Thus projects now had to be designed with some participation of the beneficiaries, and had to address their basic needs. To design projects in this new mode required knowing more about the people who actually lived in these countries, the constraints on their productivity, their motivations and behaviors, and some possible ways in which their needs might be addressed. The Agency's technical skills in these areas were limited. Where previously one needed engineers, now social scientists were also required.

c) Early Uncertainties in Project Design and Implementation. Just as there was ambiguity about the implications of the New Directions mandate in its first few years, there was also uncertainty about its specific implications for projects. Thus in the period immediately after 1973, little attention

^{10/} Title IX. Foreign Assistance Act of 1961 as amended. The Office of Civic Participation dates from this legislative change.

was given to problems of project implementation per se. Much more attention was given to clarifying the kinds of projects that met New Directions criteria, and how they were to be designed and negotiated with the host countries. Just as New Directions implied a shift among sectors and emphases within sectors, the new focus on relatively poorer countries involved a shift among regions. The legislation spoke of meeting the needs of the poor, the poor majority, and sometimes the poorest of the poor; organizationally, for the most part, this meant moving away from countries whose growth had moved them into the category of middle income, to those countries with large aggregations of very poor populations.

It also meant establishing missions in African countries, many of which had not previously had such mission. It meant finding people with expertise on these countries, and deploying agency technical personnel to these countries. And, most pertinent here, it meant designing projects which met the basic needs, especially of the rural poor, directly. Legislative changes in 1974, 1975, and again in 1977 added further specificity to the kinds of projects desired. They were to reach small farmers; increase small farmer access to the means of production; address problems of population, health, literacy, and pay attention to the problems of women.

d) Current Design and Implementation Complexities. One of the processes which the Agency introduced in order to increase its capacity to reach the poor was the Country Development Strategy Statement (CDSS). The CDSS requires the mission to determine who are the poor within a country, why are they poor, and where are they residing? Following these inquiries, the mission is then to develop a strategy for reaching these people with its projects. Project design also requires that the project be socially and environmentally sound as well as economically feasible, and financially acceptable. Project design

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became increasingly elaborate with sophisticated documents and detailed analyses, argumentation, proof, and evidentiary requirements.

In addition, it has at times been difficult to meet the requirement that projects be designed and conceived in a collaborative manner with the host country government, while also meeting the mandated goals favoring particular kinds of projects, (especially participatory small farmer projects in rural development, health, population etc.) When the host country government does not share the same commitment to basic needs projects instead of large infrastructure projects, this collaborative approach becomes complex to negotiate.

Each bureau varied on the kinds of review prior to approval they would accept, but in all cases projects had to be reviewed and approved in their bureaus in AID Washington. Review panels could raise a wide range of criticisms and deny the project approval. The Africa Bureau Review process allows for the most bureau participation, but in so doing also threatens project designers with disapproval from unanticipated quarters. The Latin American Bureau restricts participation to those most immediately involved and aware of sector and country needs.

Projects are designed in the field missions or within central bureaus. Most projects are designed in the field missions, usually by a design team, many of whose members are consultants hired to work on project design. But some projects are designed by officials within central bureaus who will then travel to missions in order to determine who might be interested in a particular problem within a particular country.

In the field missions or central bureaus, project design has become so elaborate and complex that design work is considered the most prestigious and important work possible. It attracts the best skills within the agency and

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consumes far and away the most energy and ability. As a result, it is no surprise that within the agency the frequent complaint is voiced that project design work consumes too much talent and far too many resources.

Agency management has not attempted to control this phenomena, in part because it is also constantly rethinking which kinds of activities are the most effective given the scarcity of resources. Agency management itself tends to lengthen design time because it adds other issues to be addressed at the design stage as it improves its understanding of what it believes to be the causes of poverty.

Project implementation, on the other hand, has not been seen as compelling in its complexity. Development management is not thought to be as intellectually challenging, but rather, it is thought to be rather like housework -- essential but not determining. It is assumed that pedestrian minds can work on the many project agreements, and little challenge comes in thinking through something like organizational and staffing arrangements and procurement planning. Less time and energy is devoted to these questions, and so they constantly resurface. When they do, they are given some attention, only to be neglected again. For example, the Office of Development Administration, which is one the major potential sources for support to a mission as it struggles with project administration and implementation, has never been fully staffed and given adequate resources. Training courses in implementation were only designed and initiated in 1980 and do not appear especially thorough.

e) The Project Process and the Budget. The project approval process is long, cumbersome, and unwieldy. 11/ Projects take two years to be approved,

11/ See letter to Administrator Douglas Bennet from Thomas C. Niblock, Mission Director, Indonesia and attached paper (20 pages), "Strengthening AID for the 1980's." See also Mickelwait, Swee, and Morss, *New Directions in Development: A Study of U.S. AID*. Boulder, Westview Press, 1979.

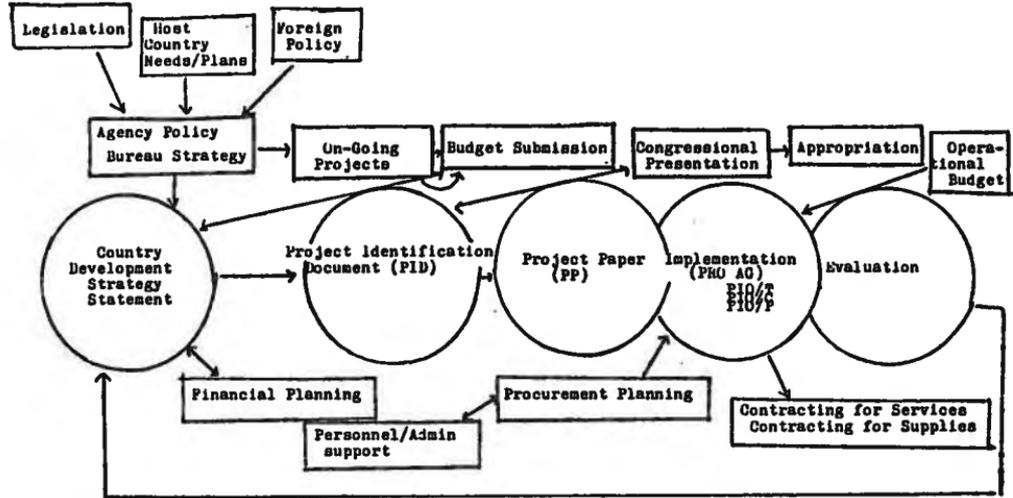
and usually another year before people are in the field to begin to turn the project into reality. (See diagram 1 on the project process on the next page and the diagram on agency programming in appendix B.) The length of time that approval takes is linked to "moving money" within the agency. ^{12/} Only after a project is approved can it be moved to the next stage -- the project paper -- and subsequently the agreement with the host country that the project will be undertaken. The signing of this agreement marks the moment when the money is obligated.

It is important to a mission to move projects to the obligation point as fast as possible to insure continuing funding. Because past obligation levels become the foundations for future budget requests, it is important to show Congress that AID can obligate funds. Thus when mission directors scan available personnel for their missions, those who are good project designers and have outstanding records for obligating funds stand foremost in the queue. While implementation and monitoring of projects are the core of AID's reason for existence, they do not determine the future of the field mission as does "moving money" and thus they do not get the same attention.

One of the characteristics of the current project implementation process is that those who design a project are rarely there to witness its implementation. Foreign service reserve officers are likely to be rotated away from the mission where they designed the project. If one is rotated away, there is no way to follow the project through the next stages of implementation. Replacement project managers also know that their best career chances come through designing new projects, not from skillful procurement work in the implementation of ongoing projects. Tours of duty can be extended, but there are currently no special incentives to do so.

12/ Inside Foreign Aid, op. cit.

Diagram 1
The Project Process



Notes

1. Each new large project must indicate meeting all statutory requirements. (e.g. social soundness, environmental soundness, role of women etc.)
2. Each new large project must go through Congressional notification and approval. PIDs are part of Congressional presentation.
3. Agreements signed with host country to undertake project constitute obligation (Pro Ag). Subsequent project implementation requirements (PIQ/T etc.) are usually taken up by other officials rather than those who designed project.
4. All major revisions to project papers and agreements must go through Congressional notification process. (There are about 400-500 such notifications each year per each Bureau)

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The Economic Support Fund, previously called Security Supporting Assistance, goes to those countries of strategic importance to the United States. Since fiscal 1976 this program has passed development assistance as a percent of total foreign assistance. Project approval procedures are less demanding for countries categorized as Economic Support Fund countries. During the course of the interviews for this study, officials were asked about whether country mission directors had begun to perceive the ESF as a "fast track" on which to move money because of its less demanding approval requirements. Many responded that it was clearly easier to program funds under the ESF and thus any country which could persuade AID Washington would find moving money easier. The Philippines mission was given as an example of one which had itself redesignated to come within ESF programming. Some officials stated that if the project approval process was not simplified, there would be increased pressures to have ESF serve a larger number of countries in the future.

f) Contractors and AID Project Implementation. Development projects are implemented through a variety of actors, each of whom has different responsibilities. AID normally implements projects through its field missions or regional offices. The person primarily responsible, the project officer, works with a project committee at the mission and with the recipient country. On its part, the recipient country usually appoints a project officer to assume responsibility for getting the project underway, procuring supplies, commodities, and necessary personnel. The AID project officer assists the host country project officer with the detailed work of procurement and personnel. AID Washington and the regional bureaus provide support for the missions. Some centrally funded projects have contractors and consultants who work directly with the recipient

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country. In these instances, a mission official will assist with the project, but the central bureau will assume more of the implementation load.

Today, it is accurate to say that most development projects are implemented by contractors working through a variety of contractual arrangements with AID. It is not possible to specify what percentage of projects are implemented by contractors because all projects involve contractors at some stage of their implementation. Some large projects involve contractors as early as the design stage. And, large projects will involve many different contractors at different stages in their implementation. In addition, with the increase of co-financing of project assistance, a project might also have more than one donor, might have private voluntary organization contributions, along with other contractors.

Few recipient countries can carry out development projects solely with their own staff. Most developing countries are short of skilled middle level managers who can be detailed to implement development projects. In addition, New Directions projects are often in those technical areas in which the host country is weak in terms of management capacity, thus requiring more support from the AID mission. The focus on the basic needs of the poor, especially the rural poor, results in projects in areas which are especially understaffed. Usually recipient countries will ask the AID mission to assist in identifying contractors needed to implement a project.

The range of contractual arrangements by which implementation is undertaken is very large. Implementors may be individuals, consulting firms based in Washington, commercial firms, universities, nongovernmental organizations, private voluntary organizations, or any of these groups or organizations based in host countries. The variety of contractual arrangements is equally large;

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personal service contracts, or fixed fee contracts, turnkey contracts, reimbursable contracts, indefinite quantity contracts, and many other kinds of procurement contracts. The management and planning of procurement is, in itself, very complex. A strong case can be made for the agency officials spending a greater portion of their time and abilities on improving the planning and management of procurement. 13/

In the last 15 years, AID has shifted from being an agency having significant operational responsibilities to an agency which largely plans and finances projects which other groups implement, and the agency monitors and evaluates. Many members of the agency's staff were not prepared for this shift. The agency undertook some training programs in an effort to reorient agency personnel and equip them for this shift. But the change was significant and not without problems. The Babb Committee Report commented, for example, that it was a major policy change in the early 1970s to reduce direct hire employment and to use instead contract firms and other institutions for a major part of the development work of the agency. Some thought the move was undertaken to give the agency greater flexibility and broader base of professional resources. But as the Babb Committee report observed:

The Task Force concluded, however, that the Agency has gone too far in some cases and has contracted out much of the most important work. Project design and the monitoring of implementation are the core of AID's business and not to have direct control over these processes is questionable and very risky. 14/

One of the risks in this approach is that many of the contractors charged with implementing New Directions projects were not committed to New Directions

13/ GAO Report to Congress, AID Slow in Dealing with Project Planning and Implementation Problems, July 15, 1980. p. 38-39

14/ Babb Committee Report op. cit. pp IV-12.

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policies. And, because of the nature of their relationship to the agency, it was not easy to hold them accountable for their lack of commitment. The agency's top leadership might have foreseen these issues and considered training programs for agency contractors. This proved difficult to do. Who would be given such training? Wouldn't such training involve narrowing the field of potential contractors since those not trained could allege unfair advantage given to those who had had such training? A Pandora's box of issues is involved in training contractors. Yet, if they are the implementors, their independence from policy guidance is unacceptable.

Consider, for example, a large university which undertakes a contract to do title XII agricultural research and development. Universities have their own organizational imperatives. And while some of the university people involved in the AID contract might find it interesting that AID is committed by New Directions to working, for example, with small farmers to enhance their productivity, the university is more interested in getting its people out to the field and addressing research problems with a future pay-off for their departments. The AID mission official who works as the project manager is in control primarily when writing the scope of work and approving contractor salary researchers. He can also intervene with amendments, or raise queries as the work progresses, but his influence during actual implementation is limited somewhat. Besides, the university may have usable clout with its Congressman and Senators; thus at times the project manager's effective control is doubtful. 15/

15/ Some of those interviewed claimed that there were many instances in which they had tried, for example, to guide private voluntary organizations which were implementing projects only to have a series of phone calls later reminding them that a Congressman interested in that PVO was concerned that AID "interfered in the PVO's implementation of the project."

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i) Problems Arising from the Emphasis on Contractors as Implementors. As the agency shifted from being a relatively operational agency to one which planned, financed, and monitored projects, work styles and incentives for performance in the field changed. For some of the older agency hands, especially the technical specialists, this was not an easy shift. Those accustomed to working directly with farmers, for example, found that they were being retrained to manage and monitor contractors -- quite a different role with different expectations and rewards. Some agency training programs were designed to equip existing staff with the new skills they would need. For some, the training was successful; for others it was not. Some technicians quit. Those who found quitting difficult to do, and were able to avoid one of the many reductions-in-force, found themselves committed to what they considered to be less satisfying work.

Monitoring a contractor's work involves writing a scope of work, visiting project sites, insuring that regulations are observed, and writing periodic reports. It also involves providing logistics and other support -- from finding generators for the contractor's refrigerator as he moves to the area, to ensuring that centrally funded visiting staff have vehicles to reach the project site.

Monitoring problems vary according to the nature of the contract, the type of contractor, host government perceptions, the size and style of the AID field mission, and the relationship of the mission and the U.S. embassy, as well as that of the mission in AID Washington. The simplest contract monitoring relationships exist with those firms that have grown up in Washington in the past seven years which are wholly involved with development assistance work. On the other hand, some of the most complex monitoring comes with work undertaken by one of the land grant universities under a centrally funded contract partially

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monitored in the field. Chart 1 below details some of the alternative patterns in implementation through contractors.

Chart 1

<u>Mission Characteristics</u>	<u>Contractor Characteristics</u>
1. small mission in small country	1. small commercial firm; limited technical capacity
2. small mission in middle size country	2. minority owned consulting firm; good technical capacity
3. large mission in small to middle size country	3. large land grant university; good technical capacity
4. large mission in large country, but not especially strategic	4. large private consulting firm with full time staff; good technical capacity
5. large mission in large strategic country	5. host country consulting firm; developing technical capacity

As can be seen from Chart 1, there are many possible combinations in implementation relationships. There are also many additional factors that were not incorporated into the chart, but are important to the process. Four factors command attention: the quality of leadership and commitment provided by mission directors, the strategic importance of the recipient country for long term security interests, the relationships among the Mission Director, the Embassy, and AID Washington, and the nature of the contract.

Effective contract management, and careful monitoring of contractor performance is most possible in large missions (categories 3, 4, and 5) but then the variety of contractor relationships is larger and more cumbersome in these same missions. In some instances, there is more capacity within the host government and host country private sector for host

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country contracting: India and Pakistan are examples. Oversight of host country contractors accustomed to different cultural and business practices impedes the quality of oversight. Even multilateral organizations, such as the World Bank, which might have the additional leverage that their multinational status provides, have found contractual oversight and monitoring of contractors to be controversial and difficult at best.

ii) Implementation Difficulties: Guidance. The major source of management guidance for AID officials is the AID Handbooks. The Handbook for project management is Handbook 3, a detailed manual of 700 pages on project assistance from formulation to evaluation. Indicative of problems in this area, however, is the fact that the chapters on implementation were not written until 1980 and as of early 1981, had not yet been released. As noted above, in large part, implementation for AID officials now means monitoring the work of others.

However, the delay in writing the chapters on implementation does not mean that no attention was being paid to the problems of implementation since 1973. Senior officials within PPC have studied the problems of implementation beginning in 1975. A management consultant, George Wing, was hired in 1975 to undertake a major study of AID's project implementation, especially in light of New Directions mandate. Wing visited and surveyed a total of 44 missions and all AID/Washington bureaus. He identified five major constraints in implementing projects: problems with procurement, little AID management support for implementation, personnel and staffing inadequacies, lack of host country institutional support; and too little delegation between AID Washington and the field.

iii) Implementation Difficulties: Procurement. Procurement and contracting regulations and procedures for AID projects are exceedingly intricate. As the Wing study concluded: "regulations are too restrictive with inadequate mission authority to approve waivers; procedures are cumbersome; host country contracting

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capability is weak; a procurement requires a long lead time." ^{16/} Several GAO studies have underscored each of these points.

One of the procedures which illustrates how procurement can become a bottleneck is the fixed reimbursable contract. The fixed reimbursable contract requires that the portions of the project's work contracted out to host country firms be on a fixed cost basis. The host country firms pay their employees as they execute the work; upon completion they bill the project manager who, in turn, forwards bills to AID Washington. Host country contractors are often unwilling to work on these contracts as it results in their waiting long periods to be paid. Fewer firms are willing to bid on these contracts, and the contracting process slows again as the mission searches for potential contractors. Countries with high inflation rates will have even fewer contractors willing to work on fixed reimbursable contracts. The Asia Bureau has found that the requirements to use this kind of contract accounted for a large part of their undisbursed funds -- that is, funds which were obligated but not actually expended.

Some contractors complain that AID field officials are not always as currently informed about particular regulations as the contracting firms' Washington headquarters. The Bureau for Program and Management Services (SER) has tried to respond to these problems with training courses for AID personnel. Some Bureaus have given more emphasis to procurement planning and the preparation of waivers in the project approval processes. But the problem remains. The fact that few of the Agency's top managers have been in AID field missions

^{16/} Memorandum: Wing Survey 1978 - Project Implementation Constraints. Dated April, 1980. Memo for Barry Sidman AAA/PPC/PDPR from Rufus Long PPC/PDPR/PDI.

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for any extended periods means that they are unlikely to know why these problems remain. Hence they are unlikely to understand how they might be rectified.

Perhaps the best way to detail how procurement becomes central to implementation is to quote extensively the example given in a recent GAO Report:

"The Dominican Republic

In October 1974, a project agreement for an agricultural sector loan was signed. A component of this project required about \$350,000 worth of commodities for the professional education sub-project. The project paper did not have a procurement schedule for these commodities. An October 10, 1975, project implementation letter stipulated that the host-country implementing agency is to develop a time-phased procurement plan no later than January 1976 for these commodities. In June 1976 the implementing agency submitted a list of equipment needed. In August 1976, AID contracted with a procurement specialist to review the list, make appropriate revisions, and to assist the host country in preparation of procurement specifications. The consultant proposed, and AID mission concurred with, the following procurement schedule:

September 30, 1976	Invitation for bids advertised.
December 1, 1976	Host country opens bids.
April 15, 1977	Start of receiving equipment, clearing customs, and sending to users.
May 15, 1977	Users arrange for installation of equipment and training of personnel in operating and maintaining the equipment.
July 1, 1977	Complete disbursement of funds for commodities.

AID approved the consultant's schedule but did not adequately evaluate its reasonableness. We were told that often it takes 6 to 8 weeks for AID to process a procurement waiver if not included in the project paper. Also, it is not unusual that shipments remain in customs for 5 months or more awaiting clearances. The schedule

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makes no allowance for a waiver and delays in customs, indicating that the sources of the required procurements and other factors were not adequately considered.

Our review showed that the following took place. The implementing agency issued bids for only two pieces of equipment in February 1977 but experienced problems in handling receipt of the equipment. AID decided in May 1977 to hire a procurement agent to review the equipment lists and recommend appropriate procurement action. In July 1977 a contract was signed with the same agent to carry out the procurement. In August and October 1977 AID approved the equipment lists. Invitations for bids for all remaining equipment were issued in August and September 1977. In October 1977 the agent advised the implementing agency that cost estimates prepared by the consultant were obsolete because old pricing information had been used.

Following chronology involving two transactions for equipment needed for the completion of the project illustrates the difficulties in project procurement when adequate planning is not done.

The procurement agent issued a purchase order in December 1977 for a milking machine costing \$8,576. The order stipulated delivery in 90 days. The machine was shipped in July 1978 -- 90 days late -- but remained in the host country's customs until January 1979. In May 1979, when we visited the project site, this milking system was not operational because a minor part had not been shipped.

In January 1978, the purchasing agent advised the implementing agency that a source waiver will be needed to purchase three spectrophotometers manufactured outside the United States. AID approved such a waiver in July 1978. The purchase order in the amount of \$50,000 for this equipment was issued in September 1978. In May 1979, these items had arrived and were awaiting installation.

As a result of these delays in ordering and receiving commodities and in completing construction of project components, the project disbursement date has been extended for 2 years." 17/

AID mission officials will add to such accounts. In a series of cables responding to the African Bureau's request that missions consider what additional

17/ Comptroller General, Report to the Congress, AID Slow in Dealing with Project Planning and Implementation Problems. July 15, 1980, pp. 22-24.

authority they would find usefully delegated, most responded that procurement regulations were crippling. 18/ Consider this response from a mission:

Currently mission directors of AFR have authority to approve non-U.S. vehicle procurement up to \$25,000 life of project. In East Africa where waivers are typically necessary due to the drive on the left rule, lack of U.S. spares, etc., \$25,000 will not buy two Land Rovers or other four wheel drive vehicles of the kind necessary to get around. AID with approval of waivers takes at least one month. ...the \$100,000 ceiling for commodities per project in general is...cumbersome. Missions are confused as to whether \$100,000 waiver authority in the services category exists, Pursuant to Handbook II, Chapt. i, section 2.4.1(b) modified by State 26044 of 1/31/80. Missions thought they had the waiver authority; REDSO office disagrees as they interpret State 26044 differently. 19/

Procurement policy and procedure have been carefully established in detailed regulations because of the suspicion that opportunities for corruption are ubiquitous in AID programs. Corruption is a major threat to any public bureaucracy; those who work with disadvantaged people such as the poor, especially within developing countries, are perceived as especially vulnerable to corruption. Thus the agency has extremely detailed regulations concerning the use of contracts and procurement.

There are 102 auditors in AID who audit projects with high Congressional visibility, a history of difficulty (e.g., P.L. 480, title II projects) or in certain developing countries where management skills are in short supply. New Directions projects are more vulnerable because they are more participatory, smaller scale, and the legislation required the collaboration of the host country government in their inception as well as implementation. Tight financial control works against making later changes in projects; New Directions projects

18/ Package of cables from field missions in response to memorandum from Goler Butcher, AA, Africa Bureau, Sept. 1980.

19/ Cable from Nairobi Mission, October 1980.

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are perceived as needing more, not less, flexibility to make changes. Also, it is asserted, the more controlled the project, the less participatory it is likely to be.

g) Project Evaluation. One of AID's major efforts in the past two years has been in the area of project evaluation. Congressional concern over the lack of evaluation by the Agency triggered this development. Responding to congressional concern, Administrator Douglas Bennett, who was also convinced of the long run utility of improving the agency's evaluation capacity, asked that the agency produce 20-30 evaluations of the impact of AID projects in the field. These impact studies would involve, among other techniques, interviewing beneficiaries of the projects, and those involved in project management to assess who received the the benefits generated by the projects.

In addition to the activities of the central Office of Evaluation Studies, each Bureau and most missions have an evaluation plan. There is also an evaluation officer in each bureau. The AID memory bank is being improved and now has 2,000 older evaluations in it, although the quality of these analyses is uneven. AID has de-emphasized routine evaluations and is trying to improve the quality of the evaluation done. Two major shortcomings noted by many observers are that too little financial/economic analysis is done, and there is very little attention paid to management issues.

Evaluation work is expensive; the more careful and sophisticated the techniques used in the acquisition and analysis of data, the more expensive the evaluation process will be. AID set aside \$425,000 in fiscal year 1980 for the Office of Evaluation Studies. This amount was subsequently reduced to \$262,000 when the agency faced a severe operating expense problem in the second quarter of FY 1980.

As of September 30, 1979 fieldwork had been completed on 27 projects in 20 different countries. Some 66 AID personnel and 13 outside consultants were used to do these evaluation studies. The average cost per evaluation was \$17,000. Some program money, as well as operating expense money, was expended; a total of \$420 million of United States assistance, was evaluated. The Office of Evaluation Studies has also been successful in winning support for evaluation from parts of the agency not previously interested in a central bureau having an evaluation role.

Evaluation teams are usually made up of AID staff who travel to the project sites, interview those concerned with the project, gather data, study available sources, and draft a report which is signed and printed. Prior to the field trips, AID has held workshops to train its staff in evaluation techniques and to insure that the field studies follow common guidelines.

After a number of project evaluations in a sector is completed, a workshop is held on that sector to which mission and bureau personnel are invited. One purpose of the workshop is the dissemination of the findings.

This process, has begun to develop a cadre of officials within the Agency who know how to do evaluations. It has also demystified evaluation research, and, for some, has resulted in its being far more readily embraced.

Many agencies have contracted for sophisticated external evaluation work at great cost only to find that people in the subject agency subsequently disregard the results. ^{20/} At least, in AID some of the officials who

^{20/} See DiMaggio and Useem, "Decentralized Applied Research: Factors Affecting the Use of Audience Research by Arts Organizations." *Journal of Applied Behavioral Science*, 1979. Vol. 15, No. 1. pp. 79-93, and Dunn and Sweirczek "Planned Organizational Change," in *Journal of Applied Behavioral Science*, 1977. Vol. 13, No. 2. pp. 135-157.

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participated in the evaluation process have been promoted to positions of considerable responsibility, so the activity is not functioning as an impediment to career advancement. On the other hand, the evaluation process is still considered a staff support function and few of the results of this process are integrated back into line decision making -- either about programs or about promotions. One concern expressed in support of this reluctance is that it might be unwise at this point to give too great weight to the opinions of a newly established activity in line decision making or in the agency's management system.

There are currently few incentives within AID for officials to gain by taking into account the findings from evaluation. There are almost no incentives for officials to do, or learn about, evaluation work in their area of interest. Much of the success of the Office of Evaluation Studies has depended upon the persuasiveness of its leadership.

To be effective, incentives promoting evaluation would have to be more fully integrated into project management and the Agency's personnel system. To do so, the Office of Evaluation Studies would need greater funding and staffing more adequately to address monitoring functions. Also, the personnel performance evaluation system might be modified to consider how officers who produce quality evaluation products could get commendation in their performance evaluation reports. 21/ When those working effectively on evaluation are rewarded with good performance evaluation reports, awards, or promotions, the agency will be on the road to creating an effective evaluation system.

21/ Memorandum from Bill Anderson to Bob Berg, Office of Evaluation, AID. "Improving Incentives for Using Evaluations."

III. C. CHANGES IN PERSONNEL, RECRUITMENT, AND TRAINING POLICIES1. INTRODUCTION AND BACKGROUND

The New Directions legislation, calling for sweeping changes in overall strategy and project focus of U.S. development aid, entailed major adjustments for AID in the areas of personnel, recruitment, and training.

The legislation itself did not dwell at great length on the staffing implications of the New Directions approach, leaving details of fulfilling the intent of Congress to the AID Administrator and his management officials.

However, Congress did express its views explicitly, if briefly, on two points of direct relevance to AID's personnel policy. First, although staff size had been reduced sharply during the period from 1968 to 1973, AID was urged to continue the process as a means of achieving a leaner and more efficient organization. Of particular concern to Congress was the need for fewer AID staff in the Washington headquarters compared to those in the field. Second, AID was to place greater emphasis on the use of private and voluntary organizations (PVOs) as well as groups and individuals within the aid recipient countries in the implementation of development projects overseas.

Implications for AID staffing went far beyond the express wishes of Congress mentioned above. The new mandate called for a significant shift in sector and geographical emphasis. Emphasis not only on the poorer of the less developed countries, but the poorer segments of society within each of those countries.

Furthermore, AID's staff involvement was to be geared, increasingly, towards project management, coordination, and evaluation, rather than direct in-the-field implementation--the latter being assumed, for the most part, by PVOs and other contracted parties. This change in task orientation required skills not generally found in large measure among AID's staff at the time.

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AID management had at its disposal two broad categories of action for restructuring its personnel to meet the demands of the New Directions legislation. It could fire outright, or otherwise facilitate the exit of existing staff and then proceed to recruit new people with the desired qualifications. Or it could retain and retrain existing staff in order that they might carry out effectively the New Directions mandate.

During seven years 1974-1980 AID management pursued a mix of these two approaches. At the outset the Agency moved aggressively to decrease "surplus" personnel through reductions-in-force (RIF), as well as by other less drastic means, thereby opening positions to be filled by newly recruited staff. Later, the greatest emphasis was directed toward retraining and educating AID professionals already on board. Throughout the entire period there has been increasing reliance on PVOs and host country groups and individuals in program implementation. The following two sections of this paper will examine in greater detail these two personnel-oriented facets of AID's response to the congressional mandate.

2. IMPLEMENTING THE NEW DIRECTIONS POLICY: FIRST STEPS

In early 1974 AID management concluded that a thorough restructuring of its staff was necessary. Major factors leading to this conclusion were:

- the changes in the Foreign Assistance Act of 1973 requiring adjustments in both skills and numbers of employees in the Agency;
- program reductions in a number of countries, such as Brazil, Turkey, Indonesia, Ecuador, Nigeria, and Korea;
- centralization within AID Washington of certain operational support functions, such as engineering, contracting, procurement, and personnel;
- diminishing involvement in Vietnam;

- legislation abolishing AID's public safety responsibilities; and
- continuing congressional concern about the size and composition of AID's U.S. employee work force, particularly those assigned to the Washington headquarters.

The New Directions change in development strategy was only one of several factors. However, the new mandate had a major impact on AID post-1973 personnel policy because it specifically called for increased use of private and voluntary organizations (PVO) and of recipient country groups in implementing AID development projects; and significant shifts were made in sector and geographical priority/emphasis in the selecting of AID development projects.

AID management also concluded that the prompt and successful restructuring of its staff could not be achieved through reliance on normal attrition alone.

In view of the above conclusions, AID management decided in June 1974 to establish a task force to identify potentially surplus positions in Washington. In July 1974, a "freeze" was imposed on Foreign Service promotions. Then in August 1974, a major survey of Civil Service positions was initiated to assure proper position classification.*

After considering the results of these steps, AID management concluded that Reduction-in-Force (RIF) procedures presented the only effective means of meeting its responsibilities to Congress. In its 1975 congressional presentation document, AID management stated that it decided to undertake a series of RIFs only when it became apparent there was no viable alternative. It pointed out that RIFs are traumatic, expensive in the short term, and operationally disruptive. It claimed that, in the conduct of these processes it had not only complied with the letter and spirit of applicable laws and regulations, but had exerted and was continuing to exert, every reasonable effort to lessen the impact on all affected employees. Specific implementing steps taken by AID in the early stages of its staff reduction and realignment plan included:

*U.S. Agency for International Development. Fiscal Year 1976 Submission to the Congress. Management Personnel, Operating Expenses. May 1975, p. 10.

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- imposing significantly reduced manpower ceilings to be achieved during FY 1975 and FY 1976;
- formally announcing the impending staff restructuring to all employees in October 1974, providing as much advance notice as possible to permit its employees to assess their personal plans and future careers;
- inaugurating a new personnel planning system in October 1974 to review and determine, annually, in terms of skills and grade levels, the position requirements of each organizational component of the Agency. Together with tightened controls on vacant positions this system was to provide AID's management with effective continuing control over its total manpower resources, both in Washington and abroad;
- placing a general "freeze" on all personnel actions in December 1974 to assure equitable treatment of all employees who might be affected;
- initiating four sequential Foreign Service reductions-in-force during the first year;
- as a result of an intensive classification survey completed in December 1974, downgrading many Civil Service positions; and
- initiating a reduction-in-force of General Service employees in April 1975.*

Special efforts to lessen the impact of the reductions-in-force on AID employees were undertaken. "Early out" discontinued service retirement, annuity authority was obtained from the Civil Service Commission in November 1974 to reduce the work force through voluntary retirements. These provisions permitted early retirement, on immediate annuity, of eligible employees whether or not they were reached by reduction-in-force actions. The resultant vacancies were used to retain employees who otherwise would have been separated. In addition, greatly strengthened employee counseling and outplacement services were made available; and where appropriate, employees were given additional training to update existing skills required by the Agency to carry out the new program directions established by Congress. Much of AID's training efforts

*U.S. Agency for International Development. Fiscal Year 1976 Submission to the Congress. Management, Personnel, Operating Expenses. May 1975, p. 11.

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were directed toward developing the skills of management and technical personnel in planning, designing, managing, monitoring and evaluating priority projects in the areas of food and nutrition, population planning and health, human resource development, and development administration.

The training programs for AID employees emphasized the following areas:

- Development Studies; inter-disciplinary programs in management, and social sciences aimed at improving both the analytic and inter-personal skills of AID's Development Officers.
- Project Management; courses designed to improve skills in utilization of analytic techniques required for successful project design, implementation, and evaluation, to assist AID managers operating in complex overseas environments.
- Advanced Management; review of contemporary theories of management for integration with relevant behavioral science findings and current systems management techniques.

The following self-assessment was made for the first year's effort at implementing the New Directions mandate:

The Agency's management believes that it has taken all reasonable and effective steps during the past year to restructure its staff to levels and in directions consistent with congressional intent... Nonetheless, AID's management intends to persevere in its continuing efforts to make whatever further adjustments in staff numbers and skills composition that may be necessary with the objective of creating a cadre of professionally competent development officers and supporting staff unrivaled anywhere in the world. 1/

1/ U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Agencies. Hearings on Foreign Assistance and Related Agencies Appropriations for 1976. Part 3. 94th Congress, 1st Session, Washington, U.S. Govt. Print. Off., 1975. p. 53.

3. FOLLOWING THROUGH ON EARLY INITIATIVES: AID'S RECORD*

The most dramatic changes in AID's personnel, recruitment and training policies occurred during the two years in the immediate wake of the New Directions mandate. In subsequent years, the Agency's managers continued to review personnel policies closely and to make adjustments whenever it appeared necessary to better meet the requirements of the Congressional mandate.

a. RIFs and Reclassifications. As noted above, in October 1974, AID initiated the first in a series of reductions-in-force (RIF) aimed at satisfying the congressional desire for a leaner, more efficient organization. It should be emphasized that the RIFs were calculated to accomplish more than simply a reduction in the size of the Agency. For several years, up until 1974, AID's strength had been coming down steeply to a large extent because of a reduction in AID's Vietnam activities. The policy initially was to let attrition bring down AID's size without recourse to a RIF. However, this approach led to imbalances in the work force and excesses of personnel in occupations which did not fit in well with the requirements of New Directions strategy. The decision was then made that RIFs would be necessary. At the same time, a classification review indicated that a large number of Civil Service positions would need to be downgraded. Staff reductions and adjustments in AID were accomplished, for the most part, through a combination of four RIFs among Foreign Service employees and one RIF among Civil Service employees.

During fiscal year 1975, a total of 114 AID Foreign Service employees were separated either through RIF actions or terminations of time-limited appointments. An additional 88 Foreign Service employees were either terminated or RIF separated during the first 9 months of fiscal year 1976, for

*The principal sources for the information contained in this section were hearings conducted by the Appropriations Committees of the House and Senate during the period from 1974 to 1980.

a grand total of 202. While there were no separations of Civil Service employees carried out through RIF procedures, a total of 127 Civil Service employees were downgraded as a result of a RIF (86) and a classification review of AID Washington positions (41). Tables 1 and 2 indicate the extent of the forced separations and downgrading during fiscal years 1975-1976.

TABLE 1. Forced Separations of Foreign Service Personnel ^{2/}
(July 1, 1974 to March 31, 1976)

Foreign Service Reserve	Fiscal Year	
	1975	1976
FSR-01	4	2
02	11	9
03	41	24
04	32	29
05	19	15
06	1	--
07	--	--
08	--	--
Subtotal	108	79
Foreign Service Staff		
FSS-01	--	--
02	--	--
03	--	--
04	2	2
05	--	--
06	--	4
07	1	3
08	--	--
09	1	--
10	2	--
Subtotal	6	9
Total	114	88
Grand Total fiscal years 1975-1976: 202		

^{2/} Reductions-in-force, terminations of time limited appointments, and completion of assignments.

Source: U.S. Congress. Senate Committee on Appropriations. Subcommittee on Foreign Assistance and Related Programs. Hearing on Foreign Assistance and Related Programs Appropriations for fiscal year 1977. 94th Congress, 2d Session. Washington, Govt. Print. Off., 1976, p. 406.

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TABLE 2. Reductions in Grade for Civil Service Personnel 3/
(July 1, 1974 to March 31, 1976)

<u>Downgraded</u>		<u>Number</u>
from	to	
GS-15	GS-14	29
	13	3
GS-14	GS-13	4
	12	1
GS-13	GS-12	6
	11	2
GS-12	GS-11	4
	7	1
GS-11	GS-10	6
	9	9
	7	1
	5	2
GS-9	GS-8	7
	7	12
	6	3
GS-8	GS-7	4
	6	2
GS-7	GS-6	25
	5	2
GS-6	GS-5	<u>4</u>
		127

3/ Resulting from Civil Service reduction-in-force or classification survey of AID Washington positions.

Source: Same as Table 1, p. 407.

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The forced separations and downgrading that occurred during the early years of the New Directions strategy resulted in a short-term loss of program momentum and efficiency, according to testimony of AID officials. As explained by them during hearings before Congress, the widespread changes caused by RIFs and other actions created not only morale problems, but, also required a period of learning and familiarization on the part of individuals placed in new positions. In addition, in many of the overseas positions where the staff members were now expected to have a language proficiency, language training was necessitated. The result of this last requirement was that the overseas positions remained unfilled until the completion of the language training program.

One of the unintended effects of the RIFs was to change the age profile of the agency. Following the reductions in force, those with the greatest seniority remained in the agency. Entry level recruiting was not stepped up until 1975. Thus, in the mid- 1970s, the agency had many senior level people, and later some able junior level people, but very thin middle ranks.

Another result of the RIFs was to create the image that the future at AID as a place to work in development was limited. Multilateral organizations, especially the World Bank, paid higher salaries and were perceived as having greater career opportunities. The major adjustments involving RIFs and forced separations were completed, for the most part, within a relatively short period -- less than two years. In testifying before a subcommittee of the House Appropriations Committee on March 24, 1976, Charles A. Mann, Assistant Administrator for Program and Management Services, stated that the "major impact" of

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the reduction-in-force was past, and the overall size of AID's workforce was more nearly in line with anticipated requirements. ^{4/}

b. Early Retirement. The number of forced separations of AID personnel during the 1974 to 1976 period did not reflect the full impact of RIF and reclassification proceedings. A number of the Agency's staff members either resigned in advance of forced separation or took the "early out" retirement opportunity provided to them. In November 1974, AID's management moved to obtain discontinued service retirement annuity authority from the Civil Service Commission. Fifty-six employees took advantage of this "early out" arrangement in the first year. ^{5/} The resulting vacancies were used to retain employees who otherwise (on account of their relatively shorter period of service) would have been separated.

c. Movement Toward a Smaller U.S.-Based Staff. In congressional hearings held each year on U.S. foreign aid legislation, a perennial question and matter of concern has been AID's progress in reducing the size of its U.S.-based staff. The concern predates the advent of New Directions, but the latter, with its emphasis on small-scale, village level projects responsive to the needs of the poor and preference for decentralization of administrative control, added to the pressure on the Agency to show evidence of a reduction. In the early stages of the New Directions shift (end of fiscal year 1974), AID's offices in the United States had 2,872 American direct-hire staff. An Agency planning "Report on Manpower and Operating Expenses," issued in April

^{4/} U.S. Congress. House. Committee on Appropriations, Subcommittee on Foreign Operations and Related Agencies. Hearings on Foreign Assistance and Related Agencies Appropriations for 1977. Part 2. 94th Congress, 2d Session, Washington, U.S. Govt. Print. Off., 1976. p. 605.

^{5/} U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Agencies. Hearings on Foreign Assistance and Related Agencies Appropriations for 1976. Part 3

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1975, projected a U.S. direct-hire level of 2,440 in the United States by June 30, 1976. This projection was prepared prior to the Agency's program terminations in Indochina which resulted in heavy cuts overseas, with many staffers returning to Washington and swelling the ranks there. In the wake of the U.S. withdrawal from Indochina, AID established its requirements for FY 1977 at a minimum of 2,455 U.S. direct-hire employees in Washington-- fifteen higher than for the year before. b/

In February 1979 hearings, Chairman of the House Committee on Foreign Affairs, Clement J. Zablocki, asked AID Administrator John J. Gilligan what success the Agency had had during the past year in shifting a greater proportion of its personnel from the United States to the field. In answer, Gilligan pointed out that there were 2,200 staff members in the United States and 3,500 overseas. He said that for FY 1980, AID was planning a U.S. level of 2,180 and an overseas level of 3,500. Thus it can be seen that a continued, but modest downward trend in staffing was taking place.

Representative Lee H. Hamilton then asked if it would help to have a congressional amendment setting a specific level or ratio between U.S.-based and field personnel. In answer, Gilligan defended AID Washington's existing level and argued strongly that it should not be reduced further. Gilligan stated

Last year I created a special task force to find a means of making further reductions in the Washington staffing levels. My target level was a staff of 2,000 versus the 2,180 we are now planning for FY 1980. After months of study and debate, I became convinced that further reductions were not practicable. There are many functions which of necessity must be carried out in Washington.

b/ U.S. Congress. Senate. Committee on Appropriations. Hearings on Foreign Assistance and Related Programs, Appropriations for fiscal year 1977. April-May 1976. pp. 860-861.

These include certain key functions, such as policy formulation, personnel management, financial management, data management, and legal oversight. Many legislated requirements involving EEO, Minority Business, Title XII, etc. from a practical viewpoint, must be managed from Washington offices. In addition, some functions such as Foreign Disaster Assistance, American Schools and Hospitals Abroad, contract management, and research and developments are more economically administered out of Washington. These functions combined require a certain minimum staffing, which I believe we have now essentially reached. 7/

Although the number of U.S. direct-hire employees based in the United States has decreased modestly during recent years, more Americans still work in this country rather than abroad. Attention has been drawn to this fact frequently by Members of Congress during testimony on AID legislation. For example, in March 1977, Clarence Long, Chairman of the House Appropriations Subcommittee reviewing AID's budget request, pointed out that 65 percent of all U.S. nationals employed directly by AID were "right here in Washington" and only 35 percent were working overseas. This large proportion of U.S. direct-hire staff in the United States has been, according to AID officials, a logical consequence of New Directions strategy and its emphasis on utilizing more contract and foreign national employees in implementing development aid programs at the grass roots level.

7/ U.S. Congress. House of Representatives. Committee on Foreign Affairs. Hearings on Foreign Assistance Legislation for fiscal year 1980-81. Part 1, February 5, 6, 7; March 9, 14, and 21, 1979. pp. 317-318.

TABLE 3. AID U.S. DIRECT-HIRE LOCATED ABROAD AND IN THE UNITED STATES
(permanent/full time at end of fiscal year)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Overseas	N/A	N/A	1,847	N/A	1,279	1,342	1,449	1,504	1,472
United States	N/A	N/A	2,872	N/A	2,427	2,329	2,200	2,223	2,112
TOTAL	5,792	5,105	4,719	3,966	3,706	3,671	3,649	3,727	3,584

Source: U.S. AID Annual presentation documents to Congress: 1973-1981

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d. Expanded Use of Foreign Professional Staff. In the years following the 1973 New Directions mandate, AID expanded its use of foreign nationals in professional staff positions overseas. The purpose served by this increased reliance on foreign national employees was, primarily, to reduce personnel costs through employment of qualified individuals at salary levels appropriate to the host country rather than at U.S. salary levels, and to respond to the New Directions legislation which called for increased participation of host country institutions and individuals in the implementation of U.S. development aid programs.

In addition to hiring foreign nationals directly, AID also provided funds indirectly through its contract operations for the hiring of foreign nationals. In testimony before Congress on March 21, 1979, AID's Administrator, John J. Gilligan, responded as follows to a question concerning the extent of the Agency's use of foreign nationals

We are making a concentrated effort to bring more foreign nationals who have qualifications to carry out the kind of projects that we have in the operation... I have been impressed by what we are doing at the present time. For instance, of all the people we have working for AID who are directly or indirectly funded by AID money flowing out of the United States Treasury to our overseas posts, 72 percent of them are foreign nationals, 28 percent are American. 8/

In January 1980, just prior to the Administrator's testimony to Congress, AID issued a report based on a comprehensive review of the Agency's use of foreign nationals. The major conclusions of the report were first, the great majority of reporting missions reported increased use of professional or semi-professional foreign national employees during the past four or five years.

8/ U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Programs. Hearings on Foreign Assistance and Related Programs, Appropriations for 1980. 96th Cong., 1st Sess., Part 4, March 1979. Washington, U.S. Govt. Print. Off., 1979. p. 847.

Foreign nationals were also being given increased responsibility in both program and technical positions. Second, most of the missions did not take issue with the Agency practice of excluding foreign national employees from policy formation, representation, and supervision of U.S. citizens. Third, in making greater use of foreign national staff, three constraints were cited most often: (a) limitations on the compensation AID could offer, particularly at the higher levels; (b) shortages of some needed skills in the local market; and (c) personnel ceiling limitations imposed from Washington. 9/

An estimate of the cost savings from the use of foreign nationals instead of Americans was provided to Congress by AID in mid-1979. The savings, including the difference in salary, benefits and support costs, was estimated to be approximately \$24,500 per person each year. 10/

Cost savings was only one important consideration in the decision to rely heavily on foreign national employees. As Representative Clarence Long explained during hearings on the subject: "I think we can greatly improve the effectiveness of the [AID] program, the acceptability of the program to the country and reduce the costs, and maybe do a better job because these people ought to be intensely interested in developing their own country." 11/

While the number of foreign national professionals hired by AID increased over the years from 1973 to 1980, the overall number of foreign staffers, both professional and non-professional, declined sharply. As the following chart

9/ Ibid., p. 848.

10/ Ibid., p. 849.

11/ Ibid.

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shows, the number of all foreign national staff fell from 5,927 in 1972 to only 1,861 in 1980—a 69 percent drop. These two non-conforming trends caused confusion during congressional hearings on AID's budget. When questioned about the matter, the Agency's Administrator, Douglas J. Bennett, Jr. replied:

Let me explain: There has been a 29 percent decrease [from 1977 to 1981] in the support staff of foreign nationals, but an 18 percent increase in the professional staffs. What we are doing is shifting away from drivers and charwomen, that sort of thing, and bringing in increasing numbers of professionally trained local employees. 12/

TABLE 4. AID DIRECT-HIRE PERSONNEL
(permanent/full time at end of fiscal year)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
U.S. Nationals	5,792	5,105	4,719	3,966	3,706	3,071	3,649	3,727	3,584
Foreign Nationals	5,927	5,003	4,242	2,219	2,045	2,041	2,106	2,026	1,861
TOTAL	11,719	10,108	8,961	6,185	5,751	5,712	5,755	5,753	5,445
Foreign Nationals as Percent of Total	51	50	47	36	36	36	37	35	34

Source: U.S. AID Annual presentation documents to Congress: 1973-1981.

12/ U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Programs. Hearings on Foreign Assistance and Related Programs, Appropriations for 1981. 96th Cong., 2d Sess., Part 1. Washington, U.S. Govt. Print. Off., 1980. p. 110-111.

e. Reliance on Outside Private Contractors. While AID has maintained a productive relationship with private and voluntary organizations (PVOs) for many years, their role was generally thought of as primarily humanitarian and somewhat outside the Agency's central concern with development. However, over time, a few PVOs have become increasingly involved in foreign development assistance activities. In 1973, in connection with the New Directions mandate, the Congress stated that U.S. development aid " . . . should be carried out to the maximum extent possible through the private sector. . . ." Accordingly, AID moved to strengthen its ties to the PVOs and their ability, with AID support, to carry out assistance projects in the form of grants and/or contracts. To be eligible for AID support, PVOs had to demonstrate that they had managerial competence in planning and carrying out development aid projects and that they would practice mutually agreed upon methods of accountability for funds and other assets provided by the U.S. Government. These funds were used to: (1) finance the implementation of approved programs and projects in less developed countries, and (2) strengthen the capability of the PVOs to plan, design, manage, and evaluate development programs and projects. 13/

More specifically, AID assisted PVOs in the following ways:

- Development Program Grants encouraged PVOs to improve their capabilities and skills in planning, designing, managing, and evaluating projects.
- Operational Program Grants were provided to help PVOs undertake specific development projects overseas.
- Institutional Support Grants assisted PVOs to meet costs of operating international programs.

13/ U.S. Congress. Senate. Committee on Appropriations. Hearings on Foreign Assistance and Related Programs Appropriations for Fiscal Year 1975. 93rd Congress, 2d Sess., February-March 1974. Washington, U.S. Govt. Print. Off., 1974. p. 687-688.

-- Through a process of registration and validation, PVOs became eligible for additional funding or help in the form of (1) ocean freight reimbursement, (2) P.L. 480 Title II commodities, and (3) excess government property.

AID also sponsored a variety of workshops, seminars, and symposia for PVOs.

As a result of an Appropriations Conference report recommendation, AID established in 1977 a registry of PVOs eligible for U.S. development aid grants. Inclusion in the registry qualified an organization to seek funds or other forms of support from the Agency.

beginning in 1978, a new "matching grants" category of assistance was created, whereby AID matched the cost of up to \$1 million of a PVO's overseas program. The purpose of the matching grant program was to support those PVOs having proven field experience to carry out development programs consistent with AID's legislative mandate. These grants were designed to generate increased private resources for developing countries. They had to be field oriented and deal with a clearly identifiable development program within specific functional and geographic areas.

The level of funding for PVOs has increased greatly from 1974 to the end of 1980, and so has the number of development specialists associated with AID indirectly through the contract and consultant link. In the summary volume of its 1981 congressional presentation document, AID viewed the PVOs as valuable members of the foreign assistance community because of their demonstrated capacity for mounting direct people-to-people and self-help development initiatives abroad, consistent with the Agency's mandate to meet the basic human needs of poor people. In the proposed Carter budget for FY 1982, AID officials also spoke of the extensive and varied support provided by the Agency to the PVOs.

For FY 1982 AID requests \$295 million to support PVO programs, an increase of \$77 million over the comparable FY 1980 level. Of the requested amount, \$236 million is funded from functional development

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assistance, \$20 million from other development accounts, including International Disaster Assistance, American Schools and Hospitals Abroad and Sahel Development Program and \$39 million from the Economic Support Fund. The FY 1982 program expansion reflects AID's commitment to increase the involvement of the PVO community in planning and implementing overseas development programs. ^{14/}

f. Development Studies Program. At the start of New Directions, AID was urged by the Congress to see that "every AID professional employee with any effect on the planning, programming, implementation or evaluation of the Agency's development aid programs be thoroughly exposed to the basic ideas behind the reforms." ^{15/} This orientation requirement was, and continues to be, fulfilled by AID through the issuance of policy statements and guidance papers intended to explain and support implementation of the congressional mandate. Meetings, conferences, and seminars have also been held to convey the essence of the reforms to the Agency's staff.

From the outset, AID's training operation was utilized as a means of both orienting and educating the staff. Existing programs -- such as the MIDS course at Syracuse, the project management seminars, the Brookings Institution and North Carolina University environmental training program -- were adapted to reflect the new thrust in U.S. development aid strategy. The most ambitious and visible training effort in response to New Directions has been AID's Development Studies Program. Initiated on May 12, 1975, this twelve-week program was designed to produce more highly qualified project development officers out of the Agency's mid-level existing staff. Generalists had their expertise

^{14/} U.S. Agency for International Development. Congressional Presentation Documents for fiscal Year 1982. Main Volume. Washington, U.S. Govt. Print. Off., 1981. p. 142. (Proposed Carter Budget)

^{15/} U.S. Congress. House. Committee on International Relations. Implementation of New Directions in Development Assistance. Report prepared by the Agency for International Development. July 22, 1975. 94th Congress, 1st session, Washington, U.S. Govt. Print. Off., 1975. P. 29.

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in technical areas deepened, while technicians learned management skills. As explained in testimony before the House Appropriations Subcommittee:

This [program] is designed to provide access to contemporary analytical techniques and to give a more complete understanding of interdisciplinary approaches to development. The program covers 12 intensive weeks, emphasizing the relationships among economics, other social sciences, and development sectors, and bringing out the implications of these relationships for project design and management. We plan to train approximately 100 key employees in this program annually. 16/

However, by the end of 1980, AID had trained only 154 mid-career officials. Some of the sessions of the Development Studies Program were cancelled when training funds were cut following reductions in agency budget allocations.

In November 1976, AID initiated the Administrators' Development Seminar, a two-week course to enhance the capability of senior officers to plan and administer development assistance programs. These seminars focused on major substantive, managerial and foreign relations issues germane to programs targeted for the poorest majority in developing countries. They provided the opportunity to bring together experienced AID managers and critically examine their efforts to develop and administer programs for the rural poor. The basic objective was to improve the design and management of AID's programs in line with the New Directions strategy. This series of seminars was designed for officers at the levels of Assistant Administrators and Deputies, Mission Directors, Deputy Mission Directors, and Office Directors, and was limited to 15 trainees for each seminar.

16/ U.S. House. Committee on Appropriations, Subcommittee on Foreign Operations and Related Agencies. Hearings on Foreign Assistance and Related Agencies Appropriations for 1977. Part. 2. 94th Congress, 2d Session, Washington, U.S. Govt. Print. Off., 1976. P. 606.

g. International Development Interns (IDI). The IDI program was first instituted in July 1968, well before the impact of New Directions legislation was felt. However, it played an important role in the Agency's drive to implement the new development assistance strategy.

The IDI program is a two-year program designed to recruit, select, and train a highly qualified cadre of young professionals for the Foreign Service. As of March 1980, AID had hired 470 IDIs and conducted 17 training classes. The retention rate of interns who completed the two-year training program was 78 percent for the period. The annual planned input of IDIs into the Agency in 1980 was set at six percent of the overseas personnel ceiling for any given year.

Since 1973, emphasis in recruiting interns has been placed on those candidates with New Directions type education and work experience, namely, in the fields of agriculture, health, nutrition, population, education, economics, financial management, business administration, and environmental planning. ^{17/}

Generally, interns are brought on board with a specific country of assignment and target occupational specialty. Training is individually tailored to provide interns with the knowledge and opportunity to understand and work effectively within AID's broad range of functions and activities.

The two-year program begins in Washington with six to eight months of group orientation and study, language training, and on-the-job assignment to a regional bureau. The remainder of the program is conducted overseas at an AID mission. At the end of their two-year training program interns are assigned to regular positions and complete the remainder of their overseas tour.

^{17/} U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Programs. Hearings on Foreign Assistance and Related Programs, Appropriations for 1981. 96th Cong., 2d Sess., Part 1. Washington, U.S. Govt. Print. Off., 1980. p. 113-114.

The figures in the following table indicate that the size of the IDI program was not directly related to the New Directions changes. The size of the 1974 class was the largest of any year, with the exception of 1969—which, interestingly enough, also coincided with a major reduction-in-force effort. The appeal of the IDI program, undoubtedly, was that it provided an ideal mechanism for selecting and training staff to carry out the New Directions mandate. It also served the Agency as an effective means for recruiting young people needed to establish a more balanced staff distribution by age and grade level. Over a period of several years, Congress had expressed dissatisfaction at what it considered to be a top-heavy organization.

TABLE 5. IDI CLASS SIZE

Class and Date		Total Number
1.	July 1968	5
2.	April 1969	18
3.	July 1969	39
4.	April 1970	15
5.	October 1970	13
6.	April 1971	16
7.	August 1971	12
8.	September 1973	23
9.	September 1974	53
10.	September 1975	42
11.	April 1976	36
12.	September 1976	39
13.	April 1977	33
14.	October 1977	38
15.	August 1978	18
16.	January 1979	28
17.	July 1979	23

Source: U.S. Congress. House. Committee on Appropriations. Subcommittee on Foreign Operations and Related Programs. Hearings on Foreign Assistance and Related Programs, Appropriations for 1981. 96th Cong., 2d Sess., Part 1. Washington, U.S. Govt. Print. Off., 1980. p. 116.

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h. Impact of Various Development Strategies on Recruitment and Staffing. The divergence of opinion which exists in AID over alternative development policy strategies also has implications for recruitment and staffing. How many agronomists, livestock experts, foresters, and fishery experts are needed, and in what combinations, to support a given rural development program? If the emphasis is to be on improving small farmer access to the means of production, how many management experts, anthropologists, and cooperative organizers would have to be added? If the project is to be integrated, that is to say, designed to include other sectoral specializations, the staffing question increases in complexity. The Office of Personnel works with these issues, but is seriously handicapped in the absence of manpower planning—planning which needs to come from the top leadership in the agency. These issues were raised by the Babb Committee report, which then considered how to reorganize AID in order to give greater emphasis to dealing with manpower questions. Three results of the Babb Committee effort were: the establishment of an Office of Rural Development, the recommendation that a unified career service be created for the agency, and the appointment of a new personnel director.

i. Complexities Caused by the Existence of Three Separate Personnel Systems. The most confusing personnel problem in AID is that the agency does not have just one career system but rather two different major systems and a third minor system. Employees are hired to work for AID as members of the General Service (GS), the Foreign Service Reserve (FSR), or the Administrative Service (AD). Each system has different regulations

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concerning promotion, benefits, and terms of service. In addition, the general Service and the Foreign Service Reserve have different unions.

An effort to unify the two professional services, (FS and GS) proved unsuccessful despite several years of congressional interest and initiative. However, as a result of the Foreign Service Act of 1980, there has been a tightening up of the system. The somewhat confusing and anomalous categories of Foreign Service Reserve officer and "domestic" Foreign Service officer have been abolished, leaving a simpler system with two different and quite distinct services. Under the new arrangement, all Foreign Service officers are obligated to serve overseas, if and when required; Civil Service employees are not thus obligated. Steps have been taken, under direction by Congress, to establish uniformity of compensation or salary levels between the two services. Previously it had been determined that the Foreign Service was significantly undergraded compared with the Civil Service. Also, a single salary schedule has now superseded the two overlapping schedules that had existed on the one hand for Foreign Service Officers and Administrative Service staff on the other.

Within offices, the existence of different personnel systems with different promotion requirements adversely affects management activities. For example, line decisions on promotion are governed under different rules for different systems, and are made by personnel panels influenced by many other factors other than programmatic success.

Different personnel systems also have a negative impact on effectiveness within offices in another respect. Approaching one's rotation to the field,

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if one is a Foreign Service Reserve officer, can create a "lame duck" effect. On the other hand, the General Service employee cannot be posted to the field for prolonged stays, thus reducing the flexibility of mission staffing. Even more confusing, missions can hire personnel under Participating Agency Services Agreement (PASA) contracts, but this involves yet another personnel system because PASA contractors work for U.S government organizations such as the Department of Agriculture and are on contract to AID.

j. Generalist vs. Specialist Recruitment. While many modern organizations experience difficulties in balancing the needs for generalists and technical specialists in their staffing patterns, for few organizations is striking the balance more complex than for AID. The agency is active in a broad range of sectors: population, agriculture, health, education, transportation, communication, and rural and urban development. Within each sector there are needs for technical specialists and generalists.

New Directions projects require social science skills in areas in which AID had not done much hiring prior to 1973. Because of the RIFs on one hand and the New Directions mandate on the other, a mismatch came into existence between the skills available and the kinds of analysis to be undertaken and projects implemented. For example, the Country Development Strategy Statement (CDSS), discussed in Part IIIA above, required social science skills which few of the specialists or generalists within the agency possessed at the time the CDSS was introduced.

Trying to recruit employees with the mix of technical skills needed to implement the New Directions mandate was also a serious problem. The

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1977 Brookings Report observed:

AID lacks the number of technically trained qualified personnel required to carry out the New Directions. The reasons are numerous, ranging from the decline in younger, more recently trained professionals over the years, through reductions in force and a virtual halt in hiring, to the downgrading in past years in the priority given to specific technical capabilities and the unattractiveness of the agency to some highly trained people as a place to do challenging development work. 18/

The technical specialties needed were many, but the agency fell steadily behind in its capacity to attract the personnel needed. The numerical ceilings imposed by Congress and the MODE limitations imposed by the Department of State added to this difficulty. 19/

One of the aspects of the generalist-specialist problem is that AID has its own definitions of who is a technician and who is a generalist. Pointing to this situation, the Babb Committee report noted:

Where else is an educator called a technician and an economist called a generalist? These absurdities may help explain AID's recruitment problems. 20/

The 1977 Brookings Report, the Babb Committee Report, and a more recent GAO study all pointed to the shortage of technicians in the Agency. In a stratified random sample survey taken by the Development Studies Program, some

18/ Gordon, Lester, et. al. An Assessment of Development Assistance Strategies. Interim Report. Brookings Institution. AID Grant no. 1722-720235. October 1977.

19/ MODE was the acronym for Monitoring Overseas Direct Employment, a Nixon administration program intended to control the number of direct-hire U.S. employees of all agencies working overseas.

20/ Agency for International Development. Task Force. Organization and Structure of AID Task Force Report for the Administrator. Washington, D.C. October 1977. p. IV-5. Commonly known as the Babb Committee Report.

32 percent of those interviewed cited the shortage of technicians as one of the major impediments to New Directions programming. The Babb Committee report calculated that there was one-half a technician available for each project implemented by AID. 21/

Often the Agency could not move between sectors because the essential technicians were not available to it. For example, energy shortages prompted many decision makers to point out the need for more awareness of energy alternatives within developing countries. It is relatively easy to generate the necessary memorandum calling for a focus on fuel wood shortages and on appropriate energy technology for developing countries. It is quite another thing actually to implement projects in these sectors without the technicians who have skills in appropriate technology or solar energy techniques.

Dealing with the complexities of staffing has not been helped by the fact that AID has done very little manpower planning, and that which has been done has been weak and ineffective. This situation has been noted by every major management study of the organization. 22/ It is ironic that while AID missions overseas frequently exhort less developed countries to undertake manpower planning, the Agency lacks such planning. AID's highly uncertain future has often been cited as a major impediment to long-term manpower planning. Yet, dealing effectively with that uncertainty would be less likely without more contingency manpower planning.

21/ op. cit.

22/ See the Brookings Report, the Babb Committee Report, and Killingworth, Chase Weil, and Roberts Diagnostic Report of the AID Organizational Changes Modeling Project. Pugh-Roberts Company. 1974

III. D. AID FIELD MISSIONS AND NEW DIRECTIONS1) FIELD MISSION SIZE AND RELATIONS WITH AID WASHINGTON

In 1973, before the passage of the New Directions legislation, AID had a total of 37 missions* overseas -- excluding South Vietnam. Between the years 1973 and 1980, the number of AID missions increased to 62. However, the number of direct-hire U.S. personnel overseas went from 3172 in 1973 to 1286 in 1980.

The largest gain was in Africa, where the number of missions grew from 8 to 28, and the number of U.S. personnel grew from 108 to 458. The only African countries to lose AID personnel from 1973 to 1980 were Ethiopia and Nigeria.

Even though the total number of missions and personnel increased during this period, AID involvement in Latin American declined. The number of missions in this region fell from 19 to 16, while the total number of U.S. personnel declined from 324 to 295. Most of the decrease was in South America, since the number of U.S. personnel working on the programs in Central America and the Caribbean increased. Programs were eliminated in Uruguay, Brazil, and Venezuela.

In this period, mission activities in the Near East increased substantially. Although the number of missions only grew from 3 to 8, the U.S. personnel level grew from 74 to 231. Increases were greatest in Egypt, which had no program in 1973, and 125 direct-hire U.S. employees in 1980.

In Asia, the increases were greatest in Bangladesh, which had no program in 1973 and 41 U.S. employees in 1980. Other large staff additions occurred in Indonesia and the Philippines, while the program in Korea was phased-out.

Data for the Asia region are confusing since the loss of South Vietnam, Laos, and Cambodia in 1975 distorts any unified regional comparisons. However, the number of missions other than South Vietnam, Cambodia, and Laos increased from seven to ten.

*Including AID "Offices"

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Table 1

AGENCY STAFF PATTERNS

<u>Total</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
AID personnel	5,640	5,747	5,557	5,445
AID Washington	2,308 (41%)	2,190 (38%)	2,215 (40%)	2,212 (39%)

Source: Noted from Harlan Hobgood's work in progress on AID personnel. AID Office of Rural Development.

Table 2

AID MISSION* SIZE
(U.S. nationals only)

<u>NEAR EAST</u>	<u>1973</u>	<u>1978</u>	<u>1980</u>	<u>ASIA*</u>	<u>1973</u>	<u>1978</u>	<u>1980</u>
<u>Economic Aid</u>				<u>Economic Aid</u>			
Afghanistan (a)	39	32	-	Bangladesh	-	37	41
Lebanon	-	-	4	Burma	-	-	3
Morocco (b)	14	13	16	Fiji	-	-	3
Tunisia (b)	21	17	16	India	36	10	19
Yemen Arab Republican	-	28	28	Indonesia	37	62	70
<u>TOTAL</u>	<u>74</u>	<u>90</u>	<u>64</u>	Korea	37	-	-
				Nepal	21	19	25
<u>Security Supporting Assistance</u>				Pakistan	30	34	32
Cyprus	-	1	-	Philippines	49	51	64
Egypt	-	87	125	Sri Lanka	-	11	21
Israel	-	-	-	Thailand	-	20	24
Jordan	-	16	20	Turkey	26	-	-
Portugal	-	6	6	<u>TOTAL</u>	<u>236</u>	<u>244</u>	<u>302</u>
Syria	-	17	16				
Turkey (a)	-	2	-				
<u>TOTAL</u>	<u>-</u>	<u>-</u>	<u>-</u>				
	74	210	231				

*Includes AID "Offices." Excludes South Vietnam, Cambodia, Laos

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TABLE 2. A. I. D. MISSION SIZE (continued)

<u>AFRICA*</u>	<u>1973</u>	<u>1978</u>	<u>1980</u>	<u>LATIN AMERICA & THE CARIBBEAN*</u>	<u>1973</u>	<u>1978</u>	<u>1980</u>
<u>Economic Aid</u>				<u>Economic Aid</u>			
Benin	-	1	1	<u>Caribbean</u>			
Burundi	-	2	6	Dominican Republic	25	17	19
Cameroon	-	21	28	Guyana	6	8	13
Cape Verdi	-	1	2	Haiti	2	34	24
Chad	-	15	8	Jamaica	5	19	20
Djibouti	-	1	2	Subtotal	38	78	76
Ethiopia	16	8	1	<u>Central America</u>			
Gambia	-	-	6	Costa Rica	9	15	17
Ghana	11	31	26	El Salvador	8	17	20
Guinea-Bissau	-	3	4	Guatemala	30	18	17
Kenya	11	30	49	Honduras	15	26	30
Liberia	8	33	28	Nicaragua	13	24	19
Malawi	-	-	4	Panama	30	23	44
Mali	-	22	33	Subtotal	105	123	147
Maruitania	-	11	16	<u>Latin America</u>			
Niger	-	28	32	Bolivia	20	28	28
Nigeria	28	-	-	Brazil	57	-	-
Rwanda	-	2	6	Chile	2	-	1
Senegal	-	21	27	Colombia	27	-	1
Sierra Leone	-	2	4	Ecuador	30	3	11
Somolia	-	5	21	Paraguay	9	15	7
Sudan	-	9	23	Peru	25	21	24
Tanzania	9	20	22	Uruguay	7	-	-
Togo	-	2	5	Venezuela	4	-	-
Uganda	9	-	11	Subtotal	181	67	72
Upper Volta	-	15	27	<u>TOTAL</u>	<u>324</u>	<u>268</u>	<u>295</u>
Zaire	16	27	28				
<u>TOTAL</u>							
<u>Security Supporting Assistance</u>							
Botswana	-	9	11				
Lesotho	-	8	10				
Swaziland	-	14	12				
Zambia	-	2	5				
<u>TOTAL</u>	-	33	38				
	108	343	458				

* All figures are for direct hire personnel only. No contract personnel or host country nationals are included. Figures are from the fiscal year 1975 and 1982 Congressional Presentations.

- (a) Afghanistan and Turkey in the Asia region in 1973.
 (b) Morocco and Tunisia in the Africa region in 1973.

The existence of field missions is often cited as the distinctive characteristic of U.S. bilateral assistance, and its greatest advantage. 1/ Having field missions is an advantage; yet those working within these missions often feel as if they are on the frontline without much support from AID Washington. One of the main points of continuing controversy in AID is how much authority to take independent action should be delegated to the field missions. 2/

In financial matters, at the present time, missions can authorize projects up to \$5 million. However, the mission's real exercise of that authority is seriously modified because of the following constraints:

- 1) missions only have authority of up to \$500,000 for executing operating grant agreements.
- 2) for other U.S. government contracts, grants, and amendments the missions' authority is limited to \$50,000 for each individual contract.
- 3) authority for contracts with individuals is limited to \$100,000. 3/

It is also the case while missions can authorize projects, they cannot appropriate these funds. AID Washington retains final approval and appropriation authority.

1/ Schwartz, Elliott. Institutional Models of Development Assistance. (NSIA, Special Studies Division, OMB. 1979)

2/ Airgrams and other exchanges provide additional insight into mission-headquarters relationships. A 20-page report by Thomas Niblock, Mission Director in Indonesia has been circulated in AID and some say it reflects the views of many Mission Directors about the heavy handedness of Bureau relationships with missions. Dated January 1978. See also, Coralie Bryant, "Organizational Impediments to Making Participation a Reality: 'Swimming Upstream' at AID." Rural Development Participation Review. Cornell University, Ithaca, New York. Spring 1980.

3/ Detailed in cable traffic in response to Goler Butcher, Africa Bureau, op. cit.

Another area of conflict is over the New Directions policies themselves. The New Directions policies were primarily mandated by Congress and implemented from the top of the agency. As a result, many at the middle level of the agency did not know or agree with the reasons leading to the adoption of the policy change, nor did they readily accept it. A part of the conflict between AID headquarters and the field missions was the contradiction which came into being between their own operating procedures and the ethos of the New Directions.

2) MISSION IMPLEMENTATION DIFFICULTIES WITH NEW DIRECTIONS PROJECTS.

There are many problems which the mission official confronts with New Directions projects. ^{4/}

Host country governments are sometimes reluctant to consider New Directions projects not only because they would secure more short term gain from more visible infrastructure projects, but also because they are not convinced that the policy will not be changed quickly by the United States. Mission personnel often feel they pay a high cost for the capriciousness of AID policy changes. Under these circumstances, it may be rational to rewrite projects descriptions so that they sound appropriate to AID Washington rather than to argue through policy induced changes with reluctant host country officials-- only to find subsequently that directives from AID Washington have changed the rules once again.

^{4/} The World Bank has also convened a Task Force to study implementation problems in human resource projects. See World Bank Staff Working Paper No. 403, Implementing Programs of Human Development. This collection of articles deals with many of the serious dilemmas involved in implementing these kinds of projects. See also Part V of this study for a more extensive treatment of New Directions problems.

It should be added that narrow interpretations of New Directions policies sometimes reactivate quarrels about the relative contributions within, as well as among, sectors to a country's growth and development. For example, narrowly interpreted, New Directions policies are to emphasize nonformal education projects rather than higher education projects. There is considerable debate among development experts about whether nonformal education contributes more to development than formal higher education. In addition to or even outside of, the scholarly debate, there is demand within developing countries for increased amounts to be devoted to formal higher education. Refusal by AID to support secondary schools or university programs is criticized at times by host government officials as part of a general reluctance to share technology.

There are also differences in status accruing to the work of AID mission. Personnel of the embassy often have many more material benefits than those of AID mission. On the one hand, some AID personnel would rather have even fewer of these benefits so that there might be less tension between their working environment and their lifestyle. ^{5/} On the other hand, other AID personnel find refuge in these material benefits precisely because development work involves a constant reminder of deprivation and poverty. New Directions projects heighten these issues precisely because of the direct targeting of the problems of poverty. U.S. embassy personnel do not have to confront these issues to the same degree, or work on these kinds of problems.

New Directions projects may require more flexibility in design and execution in order to meet the mandate's call for more participation by the project beneficiaries. There are sound management arguments for increasing

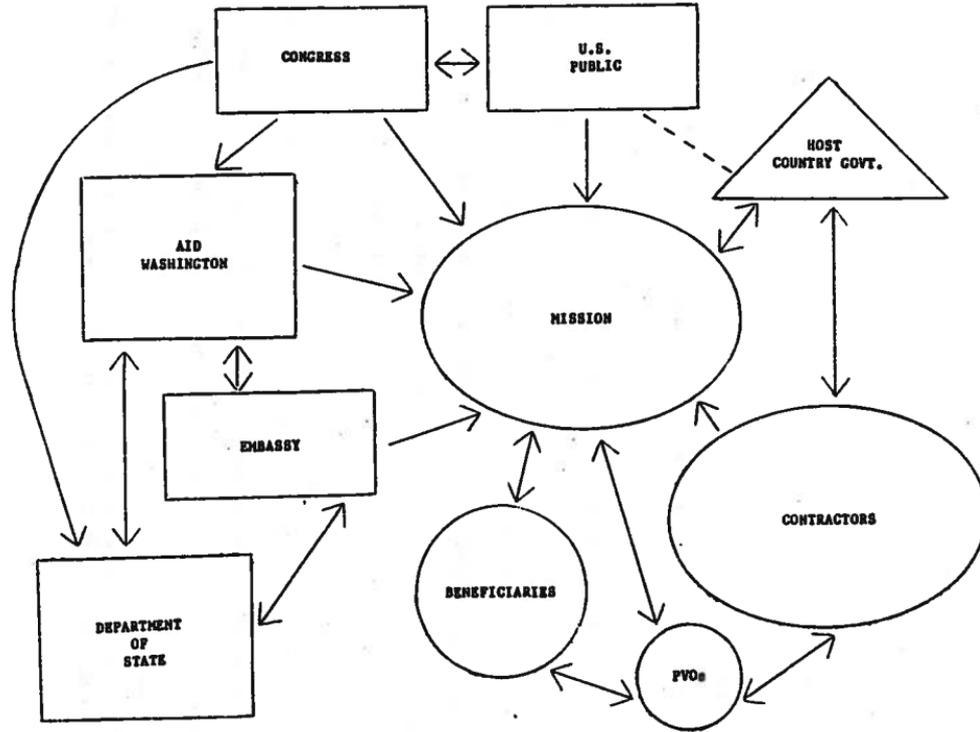
^{5/} See Tendler, Judith. Inside Foreign Aid. Baltimore, The Johns Hopkins University Press, 1975. pp. 27-31.

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participation of the beneficiaries in many projects. One is that beneficiaries often have valuable information about what works and what does not because of their accumulated experience in that place and culture. But, many AID personnel believe that a necessary degree of participation will not take place if too many decisions are made in advance in order to meet requirements in Washington. Another argument presented is that beneficiaries, like rational actors elsewhere, are not interested in wasting their time trying to influence decisions that have already been made. A section of "New Directions in Development", a book by Mickelwait, Sweet, and Morss documents the way in which participation increases effectiveness and but is less likely with strict a interpretation of project approval guidelines.

Diagram 1 illustrates the system within which the mission operates.

Diagram 1: The Mission Environment



III. E. RESPONSE OF AID'S REGIONAL BUREAUS TO NEW DIRECTIONS

1. OVERVIEW

There were strikingly different responses to the New Directions mandate by the different regional bureaus. ^{1/} Personnel in all of the bureaus were slow in responding to the New Directions, although the Latin America Bureau was already moving some of its program in this direction before the legislation was passed. Bureau personnel felt that the central AID administration was slow to issue guidance as to how to design and implement New Directions projects. Furthermore, it was felt by bureau personnel that the New Directions ideas themselves were based on untested assumptions rather than on project experience.

Among the Bureaus in AID, personnel in the Latin American Bureau were the most enthusiastic about the New Directions policies. The bureau had already been focusing on poverty and employment projects prior to 1973, although the focus was in urban areas. However, the bureau resisted moving to rural areas; and it also resisted the emphasis on low per capita income countries which would have the effect of moving the emphasis in AID programs away from Latin America.

Since 1977, the leadership of the Asia Bureau has been extremely supportive of the New Directions. Personnel in the bureau have been quite innovative in proposing projects that meet the New Directions specifications.

^{1/} The observations in this part draw heavily upon a series of 25 interviews with personnel in AID Regional Bureaus.

Different interviewees from the Near East bureau gave quite different interpretations of the response of that bureau to the New Directions mandate. Thus, it is hard to generalize about the reactions of the Near East Bureau. The general impression is that bureau personnel were generally unenthusiastic about the New Directions policies. Most of the Economic Support Fund money is administered by the Near East Bureau and this money is not tied as closely to the New Directions requirements in the Foreign Assistance Act.

The personnel in the Africa Bureau were initially the most resistant to the New Directions. The members of the bureau felt it was unfair to restrict the scope of their activities, because Africa is so exceptionally poor. It was argued that virtually anyone helped by a project in Africa was going to be poor. The countries were so underdeveloped that they still had a definite need for infrastructure. The concerns of bureau personnel were magnified when the New Directions mandate was initially interpreted to mean that infrastructure projects could no longer be supported at all.

2. AID BUREAU RESPONSES IN FUNCTIONAL AREAS

a. Reorientation of Agricultural Research

One of the most interesting discoveries made during this study was the change in research priorities since the New Directions legislation. The New Directions legislation changed the research emphasis from capital intensive agriculture, export crops, and wealthier countries to labor intensive agriculture, subsistence and food crops, and poor countries. Many in AID believe that agricultural research is the most cost effective program AID supports. Estimates of internal rates of return to such research range from 30 percent to 50 percent. The agricultural research program is large and is growing -- it may eventually receive five percent of all AID development assistance funds.

The National Academy of Sciences has been funded to carry out research on underutilized species of crops and livestock that could be of benefit to the very poor in less developed countries. Several crops have been discovered which grow without fertilizer and without much water, but which are protein-rich and flavorful. The development of the winged bean from Thailand is one example of this research. Its use is rapidly spreading throughout the less developed countries.

b. Health Programs

The health sector was not a major AID priority before 1973, except for some high visibility projects like The John F. Kennedy Hospital in Monrovia, Liberia. None of these projects was designed to benefit the rural poor. AID has managed to redesign some of these earlier projects to include a component that will benefit the poor. An example is in Egypt where AID provided desired high technology but insisted on a rural health delivery program as well.

AID bureau personnel feel that the combination of health and family planning projects is working fairly well in most countries. Some feel that population programs are too important to be buried inside health projects, but are supporting the combination because some countries will only accept family planning if it is undertaken in connection with health projects.

The major problem with New Directions health programs is dealing with recurrent costs. In the opinion of AID Health professionals generally, user fee financed health care is the only answer. While many less developed countries have constitutional provisions requiring free health care, they cannot possibly afford free health care for the entire population. The result is that "free" health care means no health care for the majority, particularly the rural poor.

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Most AID bureau personnel think that it is clear that rural based health care systems must have a credible support system -- a back up system of pharmaceuticals, higher level clinics, hospitals, etc. Where these are lacking, the rural health delivery system quickly becomes unsatisfactory.

c. Education Programs

As a result of New Directions legislation, AID started focusing on basic, nonformal and primary education -- including teacher training, increased support for women's education (because of the demonstrated link between women's education and reductions in birth rates), and tied participant training in the U.S. to specific projects.

Personnel working in education programs at AID argue that the impact evaluations which have been done of education projects demonstrate that there is a potential for success. It is claimed that one of the lessons of the impact studies is that there is a necessity to support a whole educational system (not just parts of it) and that education sector reforms take time. According to AID bureau personnel, AID needs to commit itself to working in this sector in a particular country for decades, not months or years. They believe the success of an education sector cannot be measured until a generation has grown up within the new system.

The criticisms by AID personnel of New Directions education projects have been that: they are too expensive; AID has no particular comparative advantage in this field; educational reform is too politically sensitive; and spending on education takes funds from the major area in which the United States clearly has a comparative advantage: agriculture and rural development.

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3. RESPONSE OF THE LATIN AMERICA BUREAU TO THE NEW DIRECTIONS MANDATE

This bureau has had a high degree of continuity of personnel. Many of the people in management positions have been in the Bureau since the 1960s. They cite many programs of New Directions character which pre-date the legislation.

a. Pre-New Directions Efforts

In the mid-1960s, the Latin America Bureau initiated a major change in the programming of its loan resources. This involved a shift away from large power, transportation and industrial projects and toward the new priority areas of agriculture, education, and health. This shift was significant in that much larger sums of money became available for development programs in the sectors. In contrast, until the post-1973 period, there was a tendency in the Asia and Near East Bureaus to utilize loans to finance the dollar costs of large infrastructure projects and to leave the financing of programs directed at meeting the basic human needs of the low income groups to the much smaller grant technical assistance program.

The change of priorities can be seen from the following projects which were undertaken in the latter half of the sixties and early seventies, before the 1973 New Directions legislation: primary education loans in Guatemala, Ecuador, Nicaragua, Panama, and Paraguay; a secondary education loan in Honduras; small farmer agricultural credit and/or marketing loans in Honduras, Costa Rica, Ecuador, Peru, Colombia, Nicaragua, Panama, and the Dominican Republic; community development loans in Peru and Bolivia; rural cooperative loans in Guatemala, Dominican Republic, Ecuador, and El Salvador; rural community health loans in Nicaragua and Panama; a maternal and infant care loan in the Dominican Republic; and malaria eradication loans in more than half a dozen countries.

Another important development in the pre-New Directions period in Latin America was the advent of the sector loan. These became the primary tool in

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many countries for bringing about sectoral reform programs in agriculture, education, and health. The focus of the typical sector loan program was on improving sector policies, increasing institutional capacities and efficiency in the delivery of services, and in providing technical and financial support for reform programs. The largest of the early sector loans was the \$12 million education sector loan in Brazil. AID personnel believe that this loan, approved in 1968, brought about a dramatic change in education at the junior high school level in Brazil. The loan supported major changes in the curriculum, substituting a vocational content and an "orientation toward work" for an academically oriented approach. Prior to implementation of this loan, Brazilian education was largely urban centered and college preparatory. AID's assistance supported the construction and equipping of multi-purpose schools in which the new curriculum could be installed, and also supported an extensive teacher training program. The program also developed a greatly improved education planning capability in the participating state governments and stimulated the adoption of criteria which lead to the location of new schools in the rural areas and urban slum areas where the lower income groups had not been served by the existing system. At the national level, a capacity was created to replicate these programs in the other states. This expansion to other states was supported by a second AID sector loan. According to Latin America Bureau personnel, the program brought into being by AID's sector assistance sharply increased the access to secondary education of the lower income groups, increased the relevance to them of what was taught, and improved the efficiency of the secondary education system, in terms of student retention rates in the schools and lower costs per graduate.

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b. Post New Directions Efforts

After 1973, the Latin America Bureau was enthusiastic about implementing the New Directions mandate. All projects were scrupulously screened to ensure that they complied with the new mandate. The Bureau convinced its field missions that it was serious about implementing the new mandate. Most urban programs were stopped by the mid 1970s. Latin American Bureau programs shifted to rural areas where most of the seriously deprived people were found.

1. Agriculture and Rural Development. In Latin American, the advent of the New Directions policies caused the most pronounced changes in the agriculture sector. Members of the Bureau did sector analyses to determine the appropriate groups on which to target AID assistance. Surveys were undertaken to identify potential target groups by levels of income, land holdings, etc. One Bureau official described the target groups as "those groups above the hopeless, those with potential for being viable farmers." Then the Bureau tried to determine the major constraints which kept the poor from increasing their incomes. The Bureau chose to work with the poor but not the poorest of the poor. Programs were designed to reduce the constraints facing the target groups. In some cases, the major constraint was identified as lack of credit; in other cases, lack of farm to market roads was the major bottleneck; in still others it was lack of a productive technology. In each country and region, specific programs were designed to deal with the particular problems facing the target groups. Some examples follow.

a. Integrated Rural Development Programs. The Latin America bureau has carried out its integrated rural development programs on two levels. (1) National agricultural sector programs were aimed at improving the lot of small

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farmers on a country-wide basis by providing a variety of services which included agricultural credit, agricultural supplies, technology transfer, marketing and the development of farmer organizations. National Sector programs were also designed to induce policy changes in these same areas to make the AID provided services more effective. (2) In other situations, the Latin America Bureau selected geographical areas with high concentrations of small farmers and concentrated a variety of services in these areas.

In Panama, an integrated agricultural development program was a failure because the area selected was one with severe tension over land tenure. AID had hoped the project would help relieve the tension, but in the end was prevented moving forward with the activity by it. The AID mission is now redesigning this activity to fit another area.

In Haiti the complexity of the integrated agricultural development program exceeded the managerial capacity of the host government to implement. That program was also redesigned and simplified in many respects. However, the management problem in Haiti remains even with simple projects and Latin America Bureau personnel are not sanguine about the prospects for successful implementation.

In Ecuador, where the government has made integrated rural development a cornerstone of its economic development activities in rural areas, the Bureau selected two areas characterized by large numbers of small peasant farmers living close to the margin. AID proposed to assist their economic development through a combination of irrigation projects, extension services, and improved planning, to assure the timely availability of inputs such as fertilizers, and improved marketing and agricultural credit systems. Activities for these projects include access road construction, health clinics, and schools.

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What is significant about the integrated rural development project in Ecuador is that it is designed (1) to institutionalize the capacity within the government to plan and carry out similar projects throughout the country; (2) to test alternative delivery and management approaches so as to develop lower cost delivery systems, and (3) to create a means of organizing and interacting with the rural poor so that they can make known what resources and services they most need in a given region.

In Nicaragua, the basic purpose of the 1975 Rural Development Sector Loan was to assist in establishing a new institutional mechanism, INVIERNO, the Institute for Campesino Development. INVIERNO was designed specifically to reach the rural poor, who previously had limited or no access to the services and resources required to increase their productivity and improve their well being. A second objective of the loan was to restructure the Ministry of Agriculture into an overall planning, program budgeting, and evaluation agency to oversee and coordinate the activities of all the governmental activities within the sector. The loan provided for technical assistance, and training necessary to facilitate the restructuring of the ministry. The INVIERNO project involved the development of small farmer appropriate technology packages, the training of campesino leaders and professional and para-professional extension staff, the provision of agricultural credit, agricultural supplies, a cooperative marketing structure, and access road improvements. Using para-professionals, the INVIERNO program was able to get down to the very poor farmers in two of the country's five regions and provide an integrated package of services through a low cost delivery system. These services were subsequently complemented by health and nutrition services under two other project loans.

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Evaluations of the INVIERNO program have confirmed that small farmer beneficiaries were achieving a significant increase in income due to the timely and coordinated delivery of technical services and credit.

When the Sandinista Government came to power, they changed the name of the program from INVIERNO to PROCAMPO but otherwise have continued to give it full support.

With regard to the political effects of the INVIERNO program, some Latin America Bureau personnel argue that on balance, they were destabilizing to the Somoza regime. First, the detailed two year long sector analytic study that was conducted in collaboration with the Nicaraguan government, prior to the INVIERNO loan, clearly identified the problems and constraints facing the rural poor. The sector assessment further led to the government's adoption of a Rural Policy and Strategy Statement which stated as the goal of 1975-80 rural development program to

"improve the living standard of the rural population, meaning greater access of the population to the flow of goods and services and greater participation of the individual in the decisions which affect his own improvement."

The government committed itself to an ambitious program of institutional reform and rural development, the achievement of which would constitute very nearly a social revolution in Nicaragua. Although endorsed fully by President Somoza during the 1974 political campaign, the program was designed by the young technocrats and reformist elements in the Government. AID support to these groups in the implementation of the program was vital to its success. The social and structural changes which were unleashed by the implementation of the program took on a life of their own. The continuation and expansion of the INVIERNO program by the Sandinista government gives clear testimony to this fact.

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Second, AID support of the technocrats to assure that the program was carried out as designed and that credit got to the poor without regard to political affiliation undercut Somoza's traditional political control over the distribution of funds and benefits. In the addition, the implementation of the newly-created, sector policy planning and budgeting department within the restructured Ministry of Agriculture introduced a rational planning and resource allocation process which further reduced Somoza's discretionary power over budget allocations and subsequent shifts. Again, according to Bureau interviewees the immediate beneficiaries in terms of power and influence within this system were the technocrats in the Ministry of Agriculture and in INVIERNO.

b. Conclusions. There is a consensus in the Latin America Bureau that integrated rural development projects are conceptually the correct way to benefit the rural poor. Personnel in the Bureau believe that it is not enough just to improve agricultural technology. Access roads may also be needed, or credit, or health clinics, or schools. All of these aspects of development need to be considered if real improvement is going to come about in the lives of the rural poor. Bureau personnel have noted that integrated rural development projects are extremely difficult to implement. The projects involve getting the various ministries to work together in a rural area -- the ministries of agriculture, public works, water, health, education, etc. This has never been easy -- particularly when each ministry is centrally funded and controlled from the capital city. It was observed that the more successful of these projects seemed to have had an autocratic management structure with a very strong leader to run things. Otherwise, host country ministries would not cooperate with each other.

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2. Latin America Bureau Support for Land Reform activities. Although designed in great part to respond to urgent macro-economic problems, the AID program in El Salvador is supporting a number of fundamental reforms which are helping to provide greater economic opportunities to the poor. Much of this assistance is to the Government's Agrarian Reform Program, which will transfer ownership of large haciendas (greater than 500 hectares in Phase I of the Program and those between 150 and 500 hectares in Phase II) to 45,000 families in campesino cooperatives, and of rented lands less than seven hectares to the sharecroppers and 160,000 small farm families who are tilling them. In fiscal years 1980 and 1981, AID provided \$27.8 million for land reform -- approximately half of this is being used for credit to the new cooperatives which are operating Phase I haciendas; the rest has been used for campesino training, technical assistance, and logistical costs of implementing the reform. In addition, AID has programmed local currency generated from its PL-480 Title I and Private Sector Development programs to support the Agrarian Reform Program. In fiscal year 1980, AID planned to provide an additional \$31 million for consolidation of the reform, particularly the provision of titles to the land, and for the expansion of social services to reform beneficiaries. The success of this program in light of the current levels of violence in the country is problematic. In addition the overall political impact of the land redistribution is very uncertain.

3. Rural Enterprise Lending. Given the high rates of unemployment and underemployment that have persisted throughout the region, the Latin America Bureau has been encouraging the development of small enterprises as a means of stimulating off-farm employment. In November 1974, AID and the government of Peru

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earmarked \$6.0 million for small enterprise financing in four selected departments of the Peruvian sierra. The success of the pilot program led to the authorization in April, 1979 of a second \$8.0 million loan which is expanding the coverage of the program throughout the sierra and high jungle regions of Peru. The program, administered by the Industrial Bank of Peru, is designed to improve the access of small firms to credit, appropriate technologies, and technical assistance. Eligible enterprises include artisan and cottage industries, and service and commercial establishments. The capacities of these enterprises to generate new jobs, provide value added by processing locally available resources, and contribute to regional development within the sierra and high jungle are evaluated by the Industrial Bank as the implementing agency for the project.

Through January 1979, the Bank had made 3,250 loans to small enterprises. The size of the loans generally has been less than \$5,000, with more than half of all loans made averaging less than \$3,000. Small manufacturing enterprises have received 59 percent of the loans and artisan enterprises 27 percent, with the balance going to services and commerce. Typical manufacturing enterprises have included carpentry shops, clothing makers, machine shops, shoemakers and furniture manufacturers. Artisans which have participated include weavers, carvers, leather workers, rug makers, and silversmiths. Under the service and commerce categories, grain millers, farm machinery repair shops, and agricultural supply stores have received financing. Under the program, a new job is being created for approximately \$2,500 of investment.

AID financing has been a catalyst in reorienting the Industrial Bank of Peru toward this new clientele -- small, labor-intensive enterprises of the sierra and high jungle. Until the pilot program, the Bank was concentrating

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project development and approval efforts almost exclusively on medium and large-scale industries located in the urban centers of Peru's coast. The Bank is now convinced of the feasibility of reaching small enterprises, and of the significant benefits which can be derived from such a program. With AID's second loan, the Rural Enterprise Fund has been consolidated and institutionalized within the Bank, and additional AID is no longer necessary.

4. New Lands Programs. There are new lands development programs to clear unused land and provide some of the minimal essential services such as access roads, water, credit, and health care. Then spontaneous migration takes place to these sites.

In Bolivia, Peru and Costa Rica, title to the land being colonized was held by the responsible administrative agency during the initial stages of the colonization process. In Guatemala, land titles were held by local cooperatives in each member's name. Acceptance as a colonist automatically qualified a farmer as a member of the local cooperative where his land title remained. Usufructuary rights were defined in a cooperative's founding charter granted by the Guatemalan government.

In Bolivia, Peru and Costa Rica, land titles were transferred, granted, or sold in the case of Costa Rica, to the beneficiary after he had "proved-up" the property. Proving-up generally entails meeting certain criteria as prerequisites before actual title transfer can take place. Land clearing, house construction, fencing and actual crop production are examples of "proving-up" criteria. Specific requirements for each project were generally a function of farm size. In no case was the title transferred at the initiation of the colonization scheme.

In all four AID-financed projects the Latin America Bureau provided some type of administrative assistance to the implementing agency to improve its

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capacity to actually grant titles. Training, cadastral surveys and technical assistance are typical examples of the assistance provided.

5. Rural Roads. an example of the types of changes made as a result of New Directions policies was found in an impact study of rural roads projects in Honduras. The study focused on two sets of roads. One roads project was initiated in the 1960s, one in the 1970s. The earlier roads project consisted of long roads to open up rural areas. These roads benefit all income groups --the rich and the poor. In the project undertaken in the 1970s, there was an effort made to target the roads to poor populations. Short roads were built to open up rural areas which were largely inhabited by very poor people. The benefits of these roads accrued primarily to the poor. In neither case did the roads projects involve the active participation of the poor in designing or building the roads.

6. Health Care Programs. Personnel in the Latin America Bureau argue that they have had some success in establishing rural health delivery systems. The first such project was in Brazil in 1971 before the New Directions mandate.. Peru and Panama have also completed successful rural health projects and gotten additional AID loans to expand their programs. Bureau personnel state that it is very difficult to get new systems established to provide health care for poor and rural people. AID works to set up a system of health care and tries to make sure that it can get part of the health budget after AID support is withdrawn. An AID project in the Dominican Republic seems to have done this. The program is firmly built into the health system -- with a family planning component included. Bureau personnel note that such projects take a very long time, since they involve a process of institution building.

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7. Education. The main impact of New Directions legislation in the education sector has been virtually to stop assistance to higher education in Latin America. Since 1973, the Latin America Bureau has made only one loan for university development, an \$8.5 million loan in 1975 to the newly created University of the West Indies. The thrust in the education sector is to try to reform the curriculum toward benefitting poor and rural children. AID programs in the region focus on primary education and non-formal education. AID is totally out of the cities.

8. Housing. An example of the impact on AID projects in Latin America of New Direction policies is the change in the housing guarantee program. The housing guarantee program was generally conceded to be a successful effort to build housing. It was also generally conceded that the houses were being built for middle and upper income people. The houses were costing perhaps \$20,000; this was beyond the financial capacity of the poor.

Now the program is attempting to finance houses poor people can afford -- perhaps \$5,000 houses. According to Latin America Bureau criteria, the people benefited must be below the median family income in the country. So, AID efforts are devoted to providing a site and the necessary services so poor people can build their own houses. These efforts cost perhaps \$2,500 per housing unit. The other AID alternative is called self-help housing which is a slab with roof and pillars -- along with access to water, sanitation, and electricity. These types of units cost approximately \$4,000.

c. Summary

According to personnel in the Latin America Bureau, the main difference the New Direction policies made was that the Bureau now focuses its efforts on lower income groups. Some Bureau personnel were not sure this made sense

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from the perspective of the U.S. national interest. They argued that the U.S. interest is in helping to build self-sustaining societies which will eventually bring the poor into the mainstream. To those people, it is not clear that New Direction type projects are the fastest way to do this.

There was a universal agreement that New Direction projects required too much time, too many studies, and too much effort to document the fact that the benefits were reaching the poor.

Some in the Latin America Bureau also argued that the New Directions was an arrogant strategy. It assumed that because the U.S. cared about poor people, everyone else must care about poor people to the same extent. It was asserted that most Latin American governments merely tolerate New Directions. According to Bureau personnel, the least receptive governments were those in Paraguay, Guatemala, and Bolivia. The most receptive were the governments of Costa Rica and surprisingly Nicaragua. Bureau personnel claimed that Nicaragua was not only receptive but also effective in implementing New Directions type projects.

4. RESPONSE OF THE ASIA BUREAU TO THE NEW DIRECTIONS MANDATE

During the last four years, the Asia Bureau surely had the most enthusiastic leadership concerning the New Directions of any bureau in the agency. The Assistant Administrator had been one of the designers of the legislation while a staff member of the House Foreign Affairs committee in 1973. The New Directions strategy itself was largely based on experiences in Asia, particularly the experience in the Indian Punjab with the green revolution there, the successful rural development effort in Taiwan, and the successful effort to meet basic needs in Sri Lanka. A small farmer development strategy clearly made sense in

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Asia. So, Asia Bureau personnel felt that they had a workable strategy, dedicated leadership, and some extremely competent people. What they felt was lacking was money. Much of the world's absolute poverty is concentrated in South Asia; in India, Pakistan, Bangladesh, and Indonesia. Yet Members of the Asia bureau complained they had less than \$500 million a year to work with, whereas Egypt alone received almost \$1 billion each year.

In the Asia Bureau, the question of determining who benefits from programs has had high priority. There is a new strong rural bias to its programs. Whereas before 1973, Asia Bureau programs were heavily oriented toward providing infrastructure.

The Assistant Administrator for the Asia Bureau used the Indonesian program as an example of the dramatic changes that had taken place in AID. During a speech at Cornell University on April 21, 1980, he stated that in 1973 only 8 percent of the AID portfolio in Indonesia could have been considered New Directions projects. By 1980, he asserted, more than 90 percent of the projects in Indonesia were consistent with New Directions. He further argued that all new projects in 1980 throughout the Asia Bureau were consistent with New Directions policies.

a. Specific Sectoral Activities

1. Agriculture and Rural Development. Personnel in the Asia bureau take pride in what they claim are the success of New Directions type projects in increasing agricultural production throughout the Asian region. They cite, in particular, the increase in wheat production by small holders in Bangladesh. AID was successful in advocating that fertilizer distribution be moved out of the hands of the Government and into the hands of small entrepreneurs who competed with each other and thus reduced costs of fertilizer delivered to small farmers.

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The agriculture and rural development program in Indonesia is fairly typical of the Bureau's programs in Asia. In fiscal year 1979, AID allocated \$57.9 million (62 percent) of its \$92.8 million program in Indonesia to agricultural and rural development projects. (\$31.2 million went for population and health, and only \$2.3 million for education.) The agricultural and rural development program was concentrated on integrated rural development projects. Two of these projects, Luwu and Citanduy, have been designed to for aid the rural poor in Indonesia. The Citanduy project is designed to eliminate flooding, to control erosion, and to increase the production of rice and other crops through the construction of levees and irrigation systems. This project has become a model for replication by other donors and the Government of Indonesia.

In spite of their model status, personnel in the Asia Bureau only feel that these projects have the potential for being successful. They argue that it is too soon to measure the impact. It is claimed that it will take 5 to 10 years to tell whether the projects have been successful.

Like their counterparts in the Latin America Bureau, personnel in the Asia Bureau feel that integrated rural development projects are difficult to administer, are administratively complex and require a high degree of sensitivity on the part of outside donors in order to get the various host country ministries to work together.

2. Education. As a result of the New Directions changes, the Asia Bureau stopped supporting generalized higher education programs in the mid-1970s. One particular project to train Ph.D. economists in Pakistan was cancelled because it could not be demonstrated that they would stay in the country -- earlier trainees and left Pakistan for international organizations and the Middle East--

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and because it was hard to demonstrate that having more Ph.D. economists in Pakistan would, in fact, benefit the poor. Instead of support for generalized higher education, the Asia Bureau began to focus on technical training more specifically designed to provide skilled people to improve the productivity of the poor. The Asia Bureau did support what it considered was a successful program of establishing a new system of universities in Sumatra devoted to agricultural research and extension programs. The agronomists AID had trained in U.S. universities, in general, did go back to their home countries and have done good work there.

3. Population. The Asia Bureau claims to have two of the most successful population programs in the world in Indonesia and Thailand. AID was the principal donor associated with both programs.

In Indonesia, AID is assisting the Government to provide support for clinical and village family planning programs, making information and modern contraceptive methods available, and providing financing for the production of the oral contraceptives.

In Thailand, the World Bank reported (in the World Development Report 1980, p. 68) that use of contraceptives increased from 11 to 35 percent of rural married women during the same period. The same report found that the proportion of married women using contraceptives in Indonesia increased from 0.2 percent in 1970 to 18 percent in 1977. This is confirmation of AID's success in family planning projects in Asia. The only country in which AID tried to carry out a massive family planning program and failed was in Pakistan.

b. Summary

In spite of the generally positive response of the Asia Bureau to the New Directions policies, the Bureau's own study of nutrition programs in the region

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found that equity concerns were not systematically incorporated into the pre-approval analysis of projects. 2/ The project documents generally stated that the projects were intended to benefit the poor, but little evidence was offered to demonstrate that this was in fact likely to happen. The most the study could conclude was that the Asia Bureau's projects "are located in rural areas, and that they are designed to be labor intensive so that we might assume they will benefit the poor." 3/

A serious concern was expressed by Bureau personnel that too few of its projects were designed to increase family income. In the long run this meant that the beneficiaries would not be able to pay the recurrent costs of continuing the projects once AID support was terminated.

Pakistan is the one country in the Asia region about which Bureau officials felt pessimistic. New Directions projects require local government, participation of people at the local level, and local organizations. Little of this exists in Pakistan and the government has, until very recently, shown little interest in creating viable local government.

2/ Rock, Michael T. Household (Family) Income, Basic Human Needs and the Pursuit of Growth With Equity. AID/Asia Bureau, Processed, July 9, 1979. p. 27

3/ Ibid., p. 27

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5. RESPONSE OF THE NEAR EAST BUREAU TO THE NEW DIRECTIONS MandATE

a. Agriculture and Rural Development. Application of the New Directions policies to the agriculture of the Near East posed severe problems. The design of the New Directions policies in agriculture had been based on successful small farmer strategies in Asia. The background work had been done by John Mellor in India, Jim Grant in Sri Lanka and Taiwan, and Ted Owens in Bangladesh. Small farmer agriculture was crucial to expanding agricultural production in South Asia. Most of Asian agricultural production is produced by small farmers. There is much scope for improving the productivity of these farmers.

Similar conditions to those in South Asia do not exist in the Near East. While the Near East countries need to expand food production rapidly, bureau personnel believe it makes no sense to encourage small farmer agriculture across the board. In some countries it makes sense to encourage mechanized agriculture and large scale farming because of the tremendous impact the oil boom in the Persian Gulf area has had on the countries of the Near East. This boom has attracted from 600,000 to 1,000,000 migrants from the agricultural sector of the Middle East, according to Bureau officials. Remittances from these migrants to their relatives at home are very large. This has stimulated the economies of the recipient countries. The migration to the Gulf has also pulled people off the farms. Bureau personnel claim there are now labor shortages in agriculture in many countries of the Near East, including Jordan, Syria, and possibly Egypt. In Egypt, real wages of agricultural labor are rising and female participation rates in the labor force are rising. Bureau personnel agree that labor shortages in agriculture mitigate against a small farmer development strategy and argue instead for mechanization of agriculture.

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b. Health. Before 1973, the Near East bureau was not extensively involved in health projects. There were some programs concerned with smallpox and malaria eradication, but they were very small. With the advent of the New Directions policies, the Bureau started trying to provide low cost health services to rural poor. Bureau officials argue that most less developed countries' governments are not very much concerned with providing health care for the rural poor. Most health ministries are controlled by doctors who are inclined to provide urban, curative services rather than, preventative services in a rural setting. AID has been trying to turn their attention to the need for such rural-based programs. Such programs contain a village level paramedic, who is backed up and supported by a hierarchy of referral stations, clinics, and hospitals for serious illnesses. Bureau personnel see the the crucial questions as first, how to convince health ministries to launch such a program and second, how to continue to support such a system once established. As of yet, there have been no dramatic breakthroughs in designing and implementing such systems. A continuing question is recurrent costs. Officials in the Near East Bureau argue that some studies reveal that the poor spend a considerable part of their incomes on traditional health care now. AID is trying to convince governments that the poor will pay for modern care services, as well.

6. RESPONSE OF THE AFRICA BUREAU TO THE NEW DIRECTIONS MANDATE

The Africa Bureau was and still is the least receptive to the New Directions policies of any of the regional bureaus. This is probably a reflection of the conditions in the African countries with which AID deals. These countries lack the infrastructure (both physical and social infrastructure) which has been built up in Latin America and Asia during the past three decades. Africa lacks

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the highways, the ports, railroads, and education systems which are necessary if economic growth is to take place. Thus, bureau officials felt it highly unfair that the rules should be changed before the countries in Africa got assistance with these types of projects.

However, it has been the experience of the Africa Bureau that African governments have been almost universally receptive to New Directions type projects. They are now more receptive than they were when the New Directions policies were first announced. The food problem is now so acute that African leaders are convinced that they must give agriculture priority. Also, the concern for equitable growth on the part of other donors have had an impact. Africa Bureau officials believe that Robert McNamara has been an extraordinarily significant influence. A man of his international stature conferring with leaders concerning poverty alleviation has had a profound impact on the leadership in Africa.

Although the average AID program in Africa prior to 1973 was relatively small, the Africa Bureau was financing ports, roads, intermediate credit, and infrastructure. There is continuing unhappiness in Africa with AID's unwillingness to help finance big infrastructure projects. AID has softened its position on this but the Senate Appropriations Committee has been strongly opposed. Road projects in East Africa were blocked by the Committee in 1979 and 1980. So, AID assumes only part of these responsibility for financing infrastructure projects. For example, if a dam is being built, AID may help pay for some of the irrigation ditches that reach small farmers.

The Economic Commission for Africa still wants to build big highways -- particularly international highways that will link Africa together economically. At the same time, Africa bureau officials note, while capital intensive industry is not at the top of the list of African government priorities today, agriculture is.

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a. Specific Sector Policies

1. Agriculture And Rural Development. Africa Bureau officials observed that plantations did not exist in Africa except for high value export crops, such as tea. So AID wasn't contending with a big-farm bias. Most crops were grown on family farms. However, what did not exist in Africa was the research and extension system, the credit system, the agricultural input delivery system, or the correct prices to achieve big breakthroughs in agricultural production.

Africa Bureau personnel noted that the New Directions strategy in Africa did not involve Green Revolution technology. Green Revolution technologies required fertilizer, tractors, pesticides, etc. These inputs are too costly now in the light of higher petroleum prices. Huge subsidies would have to be required in order to get farmers to adopt them. Instead, the Bureau is advocating intermediate technology in Africa, such as the use of manures rather than commercial fertilizer, or the use of animal traction rather than tractors. Unfortunately, these technologies have not yet been proven to the African farmer. And, it is not yet certain that they will be profitable. They were being introduced on an experimental basis to determine whether they will be profitable.

In Tanzania, mainly because of government intervention and policies it was said, the peasants have retreated into subsistence farming. They see no reason to enter the market economy. There are virtually no consumer goods available in the market. The Asian trader who previously distributed goods throughout the country is disappearing because of government pressure. The breakdown of the transportation system and higher fuel costs mean that commodities can't be gotten to market even if there is a surplus produced. Government budgets are declining, and employment is declining. Urban dwellers have less income to spend on agricultural goods, as a result farmers have little

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agricultural goods, as a result farmers have little incentive to produce. If governments raised producer prices, there would probably be no response on the part of the farmers for some period of time.

Thus, according to Bureau officials, internal policies in Tanzania, along with drought and higher prices for oil, have combined to make this country a disappointment to advocates of New Directions. Clearly Tanzania was the country in Africa which had shown the most concern for equity for the rural poor. Yet, AID personnel have come to feel that without massive changes in government policies (raising producer prices for export crops, devaluing the currency, improving input delivery to farmers, etc.) there is little hope that AID projects in this country will significantly benefit the masses of poor people.

According to Africa Bureau personnel, the record of livestock projects has been discouraging. Herdsmen have little need for cash, there is nothing much to buy in local markets because the foreign exchange crisis has reduced imports, and high fuel prices have cut down on transport networks. So, they do not sell their cattle. Thus, several New Direction projects to help livestock growers have been judged failures.

Bureau personnel noted that there is a chronic shortage of trained agronomists, particularly extension workers. Formerly extension workers mainly worked with large farmers. AID helped to fund curriculum changes in the agricultural college to focus on small farmer agriculture. It was also found that while most of the agricultural students were men, much of the farming was done by women. However, existing custom forbade women to talk to male extension agents. AID was able to encourage the enrollment of women in the agricultural college so that the female extension agents could deal with the female farmers. Now 25 to 30 percent of entering classes are women.

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Earlier agricultural research was focused on crops which were grown in the highlands mainly by white farmers. AID encouraged research on semi-arid areas which are inhabited by the less powerful and less wealthy native farmers. With the help of the Food and Agriculture Organization (FAO), AID was able to increase the number of agricultural research stations doing research on crops for less fertile lands, and on methods of preventing soil erosion. According to Bureau personnel, the cost effectiveness of agricultural research has been demonstrated to be higher than almost any other type of investment one can make -- both in the U.S. and in the LDC's.

The direct beneficiaries of the agricultural education projects are likely to be the relatively high income agriculture extension agents and researchers who will get secure government jobs and those farmers who use their services. In spite of the incidence of these benefits, Bureau personnel conclude that the education projects are consistent with the New Directions policies.

2. Education. The Africa Bureau has discontinued generalized assistance to higher education and now only supports agricultural college and reasearch programs and participant training in the United States. The new thrust in Africa is to expand non-formal education. Most of these non-formal education projects are integral parts of other projects, such as integrated rural development projects. There are also several projects which have as a component programs to teach literacy and computation skills.

Some in the Africa bureau argue that AID's strength is in institution building -- such as setting up agricultural colleges. They argue that AID has not been very successful in reforming primary school curricula.

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3. Health. Prior to the New Directions policies, the Africa Bureau funded few health related programs. The only programs that were funded dealt with measles and smallpox eradication. The Bureau has been successful in convincing some African countries to shift their health budgets away from curative health programs in cities to preventative health programs serving the poor in rural areas. However, AID has been unable to convince host countries to try to make health and education projects self-sustaining or even partially self-sustaining. For example, Zambia has a complete free health care program. In reality, Africa Bureau personnel note, this means that people either have free health care or no health care at all. The obvious result is that most people in rural areas have no health care. But they are currently spending part of their income on traditional health care. Bureau personnel advocate that African governments get their citizens to pay something for modern health care, to help offset recurrent costs.

4. Population. The population problem is acute in Africa. Africa has the highest population growth rates, the highest migration rates, and the highest urbanization rates in the world. Infant mortality rates are only beginning to fall, while population growth rates are continuing to rise.

The Africa Bureau has had some success in convincing African government leaders to consider the consequences of increasing population. The Futures Group (a private consulting group) has prepared presentations for governmental leaders on the implications of continued high population growth rates on the need for schools, housing, jobs, etc. There is now some support for population programs in some African countries, such as Kenya, Ruanda, and the Cameroons. Africa Bureau officials note that AID is the only donor advocating family planning in Africa.

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b. The Impact of External factors on Aid Programs in Africa

Africa Bureau officials note that the New Directions strategy seems to have assumed that the economic environment was favorable for economic development. No provision were made for helping countries meet balance of payments problems. But just as New Directions was launched in 1973, so was OPEC's quadrupling of oil prices. World stagflation hit African economies very severely. With some few exceptions, African economies continue to suffer severe recessions today.

The Africa Bureau personnel believe that many New Direction projects have saddled countries in their region with high recurrent costs. It is argued that if these projects are not to become disasters, AID should move back into the modern sectors and promote development in transportation and irrigation, in order to increase productivity rapidly, thereby possibly making available the resources to continue the New Directions programs.

Personnel in the Africa Bureau recently reviewed some projects that would earlier have been judged successful examples of New Direction type projects. Virtually all of them now would be judged failures because of reasons outside the control of AID or the LDCs themselves. The external environment had become so unfavorable — a combination of droughts, higher oil prices, lower commodity prices, etc. — that the LDC's did not have the money to pay the recurrent costs of these projects when AID terminated its relationship with them.

According to Bureau personnel, New Direction type projects from all donors in Africa — the World Bank, the Scandinavians, etc. are in trouble. The donors are having to pay the recurrent costs of the projects in order to keep them going.

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Why was Africa harder hit by OPEC and world stagflation than other regions? Personnel in the Africa Bureau maintain that Africa was considerably more backward than Latin America or Asia -- in terms of modernizing and industrializing economies. African countries were not diversified, they depended on one or two export crops for their foreign exchange earnings. When prices for these commodities dropped, they had no alternative commodities to export. African countries have not yet achieved the level of industrialization achieved by Korea, Taiwan, or Brazil. This industrial base allowed these countries to continue expanding exports in spite of world stagflation. Their industrial bases also allowed them to borrow heavily from commercial banks to keep their development programs going.

c. Need For Growth Sectors

According to Africa Bureau officials, those African countries which have been most successful in implementing New Directions projects are those with a growth sector -- minerals, oil, or agriculture -- particularly export crops. Examples of successful growth sectors would be uranium in Niger, and agriculture in Kenya, Malawi, Ivory Coast, and Cameroon. The Ivory Coast has had dramatic growth with no worsening of income distribution. This has obviously benefitted the poor as their incomes rose. In some cases, the income share of the poor has improved. Trickle down does appear to work in some cases.

Bureau officials note the anomaly that those countries with the greatest commitment to New Direction type projects -- Tanzania, Mozambique, Mali, and Somalia -- have not had growth sectors; have had stagnant exports, inappropriate policies (particularly agricultural prices so low as to be a disincentive for farmers), and an overemphasis on parastatal (government owned but profit-making and independently operated enterprises) organizations to carry out almost

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all economic activity. Bureau personnel say that many African governments are practicing a version of mercantilism -- trying to run all aspects of the economy. They set prices for grain paid to farmers, set the price of bread, deliver all the inputs through parastatal organizations. These parastatals have been inefficient, overstaffed, and unresponsive to market forces.

According to Africa Bureau personnel, New Directions efforts in Africa have probably meant that some people have a more secure subsistence economy. However, little has been done to attack the fundamental causes of poverty there. They felt that African countries need a fundamental transformation of their agriculture from a subsistence-oriented peasant mode of production to a surplus generating agriculture. But New Direction projects have done very little to increase economic growth. This is what would be required in order to reduce poverty. In turn, this would require an increase in infrastructure in Africa on AID function ruled out by New Directions policy. Such a massive change in agriculture would also cost far more than AID has been allocated to use in Africa.

Some argue that the single greatest mistake in Africa was working primarily with government to government programs. Instead, they argue that AID should be encouraging indigenous private voluntary organizations, and private enterprises. U.S. private voluntary organizations (PVO's) have been helpful in getting to the village level. But the PVO's have been of mixed competence.

IV. TOWARDS ON ASSESSMENT OF AID'S EFFECTIVENESS IN BENEFITTING THE POOR.

This part is designed to deal with two related topics. The first topic is an examination of what, in theory, is needed to determine the post hoc success of any foreign aid project and the difficulties in making this determination. The second topic involves an examination of AID's efforts to comply with the New Directions mandate using three different techniques: first by examining the changes in regional allocations, then by examining changes in distribution among budget categories and among intended project beneficiaries, and finally by examining AID's Impact Evaluation Studies, designed to determine the effectiveness of certain of its completed projects.

A. METHODOLOGICAL PROBLEMS IN DETERMINING AID'S EFFECTIVENESS IN BENEFITTING THE POOR

According to economic theory, it is clear that AID projects, like any other additional economic activity, have direct effects (more jobs, increased incomes, greater output) and indirect effects on the poor. It is the indirect effects that pose the greatest analytical problems. One of the indirect effects is an income multiplier effect. As incomes of any recipient group go up they are spent and respent throughout the region, benefiting, in some measure, the poor. There is an employment multiplier as well. As one group receives income, it spends that money on additional goods and services, creating more jobs, some of which are obtained by poor people. Because of the fungibility of funds, foreign aid projects relieve some of the balance of payments constraints facing less developed countries. For the same reason, they release other resources that can be used for investment. These general economic benefits have some effect on the well-being of the poor. There are also price effects of aid projects: by increasing output, projects may reduce prices paid by the poor.

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In order to measure accurately these several indirect effects, one would need to construct detailed econometric models of sectors, regions, or countries. Then data would have to be gathered before and after project implementation to use in the model. For most LDCs, macroeconomic models are rudimentary or nonexistent, and adequate data are unavailable.

1. Measuring the Incidence of Benefits

Other problems arise in measuring the incidence of specific recipient benefits. How can the beneficiaries, and the degree of benefit, of for example, a road project, be determined? One objective of the project would be to save vehicle operating costs. Assuming the project succeeded, what happens to the savings? Do the truck operators lower rates? This would take place if the trucking industry were competitive. Do new trucking companies come into existence? Lower rates might stimulate more demand and might lower ultimate costs to consumers. Only a very elaborate model of the target economy could trace this. Other problems arise in trying to determine whether the aid project itself is the actual cause of the change in economic status of the target groups or whether other factors -- economic, social, political or technological -- are responsible. It is practically impossible to measure the contribution of New Directions programs providing only technical assistance to changes in visible economic phenomena.

2. Impact of Sector and Macro Policies

In addition to the difficulties of measuring the incidence of benefits, there is another problem in trying to assess the overall effectiveness of AID in benefitting the poor. It is sometimes misleading to focus only on the direct impact of projects. AID sometimes ties project loans to changes

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in host country sector and macroeconomic policies, such as changes in agricultural prices or credit practices. In order to get a true picture of AID's impact one would need to know the impact of these policy changes on the economy as a whole and on the poor.

In order to evaluate the impact sector policies both the direct and indirect effects of the policies must be considered. Who benefits from the policies? Who pays the cost of the policies? What are the changes in income and its distribution over time? To what extent are the changes the result of the AID induced policy modifications and to what extent the result of exogenous factors.

In addition to looking at sector policies in assessing AID's impact, one also needs to look at the country's macroeconomic policies. These deal with taxes, foreign exchange rates, and controls, investment priorities, government interventions in the economy, etc. Has AID influenced host country investments toward projects that benefit the poor? What is happening to income distribution? Not only are these data often not available, but, as with specific project results, it is difficult to isolate the effect of AID on any policy changes that have occurred.

3. The Problem of Timing and New Directions Project Measurement

Some AID personnel and outside scholars claim that it may be too soon to measure the results of AID New Directions projects in benefitting the poor. AID began some new directions projects in 1975, the argument runs, so the projects have been operating only five years at most. It may take up to ten years to complete some projects. So, it is claimed, it would be very difficult to determine the impact of the new projects now. On the other hand, as noted above, the impact of some of the New Directions Programs, especially

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in the area of social infrastructure, may not be determinable in any measurable way — even though the project is "successful."

Given all these difficulties and limitations, what can be said about the effectiveness of AID in benefitting the poor? At this time, some rather clear indications of AID's intentions appear below in Part IV B, C, and D. In addition, AID's post hoc impact evaluations, which appear below in Part IV E, provide other data about certain New Directions projects. Independently verifiable results, however, would have to be measured by in-field evaluations.

IV. B. CHANGES IN ALLOCATIONS AMONG AID BUDGET CATEGORIES

As noted in Part III, one of the major changes made by the 1973 law was in the budgetary categories AID used to program its funds. The functional accounts set out in 1973 for the new budget categories form a benchmark of the distribution of AID projects at the outset of the New Directions. Any changes in emphasis, as explained by the amounts in each category, help indicate how AID implemented the congressional mandate.

Table 1 reveals that as compared with fiscal years 1973-74, AID development assistance had become highly concentrated in agriculture, rural development, and nutrition by fiscal years 1979-80. This budget category received 65 percent of the funds in the most recent period, as compared to 38 percent of the funds in fiscal year 1973-74. The shares going to health (14 percent) and education (7 percent) stayed virtually constant. The share going to special development activities dropped from 34 to 10 percent. The population category also experienced a decline, from 3.8 percent to 1.2 percent.

A study done for AID by a group of researchers from Harvard University of allocations among budget categories has recently been completed. The Harvard group used the Congressional Presentations as the source of data and derived different budget categories from those used to compile table 1. Their findings are presented in table 2. The Harvard group found that agriculture and rural development increased from 17 percent of total bilateral economic aid budget in fiscal year 1973 to 38 percent in fiscal year 1979; health, nutrition, and population increased from 9 to 17 percent, education and manpower training

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stayed virtually constant at 7 percent, and selected development activities declined from 30 to 21 percent. Since not all projects proposed in the Congressional Presentation are authorized each year, there would obviously be discrepancies between the findings in table 1 and the findings of the Harvard study.

The Harvard group also included several types of AID allocation which were excluded in compiling table 1, i.e., international organizations, narcotics control, etc. When their data are re-computed — excluding these categories — it turns out that the agriculture and rural development account went from 27 percent to 47 percent; health, etc. went from 15 percent to 21 percent; education from 11 percent to 7 percent; and selected development activities went from 48 percent to 25 percent when fiscal years 1973-74 are composed with fiscal years 1979-80. These data indicate a truly significant shift to the agriculture sector, both as a percentage of the total, and in terms of funds expended.

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Table 1. Development of Assistance by Budget Category for
Fiscal Years 1973-1974 and 1979-1980

<u>Budget Category</u>	(U.S. \$ millions)			
	1973 - 1974		1979 - 1980	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agriculture				
Rural Development	\$204.2	37.8	\$1,209.6	65.4
Nutrition				
Health	88.5	16.4	287.1	15.5
Population	20.5	3.8	21.6	1.2
Education	41.1	7.6	137.61	7.4
Special Development Activities	185.9	34.4	192.8	10.4
Technical Assistance				
TOTAL	540.4	99.4	\$1,848.7	99.9

Source: Based on analysis of AID project proposals, project summaries, and Congressional Presentations.

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Table 2. Proposed Aid Development Assistance Programs as Presented to Congress

	FY 1973	(\$m)	(%)	(\$m)	(%)	FY 1979
Ag. & Rural Development	\$277	17%	\$754	38%	Food & Nutrition ^{a/}	
Health, Nutrition & Pop. health & nutrition population ^{b/}	(36)		(157)		Health & Population health ^{a/} population ^{b/}	
Sum: Health, Nutr., Pop.	152	9	333	17	Sum: Health & Pop.	
Ed & Manpower Training ^{c/}	110	7	109	6	Ed & Human Resources ^{c/}	
Selected Dev. Activities industry, transp & urb dev disaster assistance program dev & support ^{d/} research other	(234)	(14)	(14)	(25)	Selected Dev Activities urban dev & housing disaster assistance operating expenses research other	
Sum: Selected Dev. Act.	492	30	404	21	Sum: Selected Dev Act.	
Selected Countries & Orgs. nonproject loans private dev asst support	(345)		(42)		Selected Countries & Orgs. priv dev asst support	
Sum: Sel. Countries & Orgs. ^{b/}	358	22	42	2	Sum: Selected Orgs.	
Intl Orgs. & Programs	187	11	312	16	Intl Orgs. & Programs	
Am Schools & Hosp Abroad	16	1	8	.4	Am Schools & Hosp Abroad	
Intl Narcotics Control	37	2				
TOTALS ^{e/}	\$1,629	99%	\$1,962	100.4%	TOTALS ^{e/}	

Source: AID Congressional Presentations FY73, FY79

Notes:

^{a/} Of \$90 million proposed for the Sahel Development Program, \$81 million is included in the Food and Nutrition category, and \$9 million in Health.

^{b/} An additional \$9 million in FY 73 and \$30 million in FY 79 earmarked for UN population programs that were included in the Intl Organizations & Programs category is included under Population in the Congressional Presentation summary tables.

^{c/} Selected Dev. Activities not included as a separate functional account in FY 73. For FY 79 funds other than those earmarked for Sec. 106 of the Foreign Assistance Act have been included.

^{d/} \$47 million for program development & support in regional bureaus; \$59 million for program support, mainly in Washington.

^{e/} Totals exclude Security Supporting Assistance and P.L. 480 funds.

Source: Robert E. Klitgaard, Mark T. Fitzpatrick, and Stephen B. Cox. From Old to New Directions: Comparison of 1973 and 1979 Portfolios (1978) Processed.

IV. C. CHANGES IN REGIONAL AID ALLOCATIONS TO RECIPIENT COUNTRIES

If the New Directions mandate appears to have caused changes in allocations among AID budget categories, another area which would provide some indication of policy induced changes in priority is in allocations to different geographic regions.

1. Changes In Regional Allocations

When the regional allocations of development assistance are examined (see table 1), it is clear that significant shifts between regions have occurred since 1973. Latin America received 33 percent of the funds in 1973-74 and 27 percent 1979-80. This is a shift away from a relatively high per capita income region. In addition, Latin American programs have been redirected to lower income countries in the region, especially Bolivia and Haiti.

The Near East region experienced increase from 3.6 percent of development assistance in 1973-74 to 5 percent in 1979-80. This is also a relatively high per capita income region. However, to a significant extent, the exclusion of ESF funding understates the amount of development assistance for this region since many ESF programs in the Near East can also be considered development programs.

The region that experienced the most dramatic increase in relative shares was Africa. Africa's share increased from 17 percent in 1973-74 to 28 percent in 1979-80. Asia's share decreased from 47 percent to 41 percent, mainly because of decreases in programming for Pakistan, and South Vietnam. Africa and Asia are the lowest per capita income regions and account for the bulk of the world's absolute poverty.

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Table i. Development Assistance* by Region** for Fiscal Years
1973-74 and 1979-80
(obligations/loan authorization basis)
(millions of dollars)

<u>Regions</u>	<u>1973 - 1974</u>		<u>1979 - 1980</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Asia	\$805	47.4	\$807	40.8
Africa	280	16.5	548	27.7
Near East	61	3.6	98	5.0
Latin America	522	32.5	523	26.5
TOTALS	1,699	100.0	1,978	100.0

*Interregional and Economic Support Funds Excluded

**Regional allocations re-computed to conform with present structure of regional bureaus.

Source: Agency for International Development, U.S. Overseas Loans and Grants 1974 and 1980 editions.

2. AID Programming to Deal With Absolute Poverty

Table 2 indicates the distribution of people living in absolute poverty. Absolute poverty means more than low income. It also means malnutrition, poor health, and lack of education. ^{1/} The table reveals that 81 percent of the people living in absolute poverty live in those less developed countries having per capita incomes of \$300 or less.

Taking as a cutoff a level of income based on detailed studies in India, the World Bank estimates the number of people living in absolute poverty in the

^{1/} World Bank. World Development Report 1980. Washington, World Bank, 1980. p. 33.

world in 1980 at around 780 million, excluding China and other centrally planned economies.

Since absolute poverty seems to be concentrated in certain low income countries, one test of AID's effectiveness in implementing the New Directions mandate would be to look at the distribution of aid based on per capita income of the recipient countries now as compared to the distribution of aid prior to the New Directions. Table 3 reflects the changes that have occurred. In fiscal year 1973-74, AID allocated 66 percent of its development assistance to countries with per capita incomes of less than \$300. In 1979-80 AID allocated 43 percent of its development assistance to such countries. By this measure, the share of AID funds going to the poorest countries has fallen. However, there was some growth in per capita incomes during the period so that data on changes in allocations should take this into account. Due to inflation and some degree of real growth, 33 of the 38 countries falling below the \$300 per capita category in 1973 advanced at least one grouping by 1978. Using a different measurement--the amount of assistance provided to the relatively poorest countries--AID allocated 67 percent of development assistance in 1979-80 to the 38 countries with the lowest per capita incomes. This would indicate a small increase in the amount of aid going to the poorest countries since the implementation of New Directions.

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Table 2. The Distribution of Poverty Among Developing Country Groups

Country Group	Total 1977 Population	Percent Poor	Total Poor Population	Percent of World Total Poor in Specific Country Group	Cumulative Percent of World Total Poor
(1977 Per Capita GNP)	(millions)		(millions)		
Less than \$150 (14 countries)	219.1	62	135.8	17.4	17.4
India - \$150	631.7	46	290.6	37.2	54.6
\$150 - \$300 (24 countries)	401.3	51	203.6	26.1	80.7
\$301 - \$450 (13 countries)	245.9	31	76.6	9.8	90.5
\$451 - \$1200 (28 countries)	326.4	15	49.0	6.2	96.7
\$1201 - \$4800 (22 countries)	208.5	12	24.9	3.2	99.9
Total (102 countries)	2,032.9	38	780.6	99.9	

NOTE: Country groupings are based on 1977 per capita GNP figures from the World Development Report 1979, or in a few cases from the 1979 World Bank Atlas. Population figures are from the 1979 World Bank Atlas.

Source: Michael J. Crosswell, Growth, Poverty Alleviation and Foreign Assistance, in Danny Leipziger, ed., Basic Needs and Development (Oelgshlager, Gunn and Haine, Cambridge, Massachusetts, 1981). Chapter 5.

Table 3. Development Assistance* by Per Capita GNP of Recipient Countries
Fiscal Years 1973-1974 and 1979-1980

1973 Per Capita GNP	1973-1974 Development Assistance		1978 Per Capita GNP	1979-1980 Development Assistance	
	Amount	Percent		Amount	Percent
under 100	\$222.2	15.9	under 100	\$170.7	10.0
101-200	533.4	38.2	101-200	396.9	23.2
201-300	163.0	11.7	201-300	160.1	9.4
301-400	152.9	10.9	301-400	304.4	17.8
401-500	145.1	10.4	401-500	150.8	8.8
501-600	67.1	4.8	501-600	213.8	12.5
601-700	15.9	1.1	601-700	23.0	1.3
701-800	61.9	4.4	701-800	52.8	3.1
801-900	0	0	801-900	30.2	1.8
901-1000	35.5	2.5	901-1000	120.1	7.0
over 1000	0.8	0.1	over 1000	85.4	5.0
Totals	\$1,397.8	100.0		\$1,708.2	100.0

* Interregional Funds and Economic Support Funds Excluded.

Source: 1978 Per Capita GNP figures from World Bank, World Development Report 1980, 1973 Per Capita GNP figures from World Bank Atlas 1975. Development Assistance Data from Agency for International Development, U.S. Overseas Loans and Grants, 1974 and 1980 editions.

Because there was some growth in per capita incomes during the period, data on changes in allocations should take this into account. A country that was below \$300 per capita in 1973-74 might be in the over \$300 group in 1979-80.

When AID's development assistance amounts are put into the income categories used in Table 2 the results are found in Table 4. This table reveals that whereas 17 percent of the people living in absolute poverty lived in countries with per capita incomes less than \$150, AID allocated 19 percent of its funds to these countries. Solely using the figures in the table, India turns out to be the real anomaly. Whereas 37 percent of the people living in absolute poverty live there, India only received 11 percent of AID's development assistance in 1979-80. This figure would have been even lower if the very cool political relations between India and the United States had continued into the latter data period.

Table 4

THE DISTRIBUTION OF POVERTY AND U.S. DEVELOPMENT ASSISTANCE
AUTHORIZATIONS AMONG COUNTRY GROUPS*

<u>Country Group</u> (1977 Per Capita GNP)	<u>1977</u> <u>Population</u> (millions)	<u>Percent</u> <u>Poor</u>	<u>Poor</u> <u>Population</u> (millions)	<u>Percent of</u> <u>Total Poor</u>	<u>Cumulative</u> <u>Percent of</u> <u>Total Poor</u>	<u>1979 &</u> <u>1980</u> <u>AID D.A.</u> (millions)	<u>Percent</u> <u>D.A.</u> <u>Distribution</u>
Less than \$150 (14 countries)	219.1	62	135.8	17.4	17.4	\$324.0	19.0
India - \$150	631.7.	46	290.6	37.2	54.6	\$193.9	11.4
\$150 - \$300 (24 countries)	401.3	51	203.6	26.1	80.7	\$471.6	27.6
\$301 - \$450 (13 countries)	245.9	31	76.6	9.8	90.5	\$305.0	17.9
\$451 - \$1200 (28 countries)	326.4	15	49.0	6.2	96.7	\$358.5	21.0
\$1201 - \$4800 (22 countries)	208.5	12	24.9	3.2	99.9	\$ 55.2	3.2
Total (102 countries)	2,032.9	38	780.6	99.9		\$1,708.2**	100.1

* Adapted from Table 2.

Source: Data on U.S. Development Assistance comes from AID, U.S. Overseas Loans and Grants and Assistance From International Organizations Obligation and Loan Authorizations, July 1, 1945 - September 30, 1979 and from The Agency For International Development, FY1982 Congressional Presentations.

IV.D. ANALYSIS OF INTENDED PROJECT BENEFICIARIES

In order to determine whether AID had complied with the intent of the New Directions legislation to concentrate on the rural poor majorities in the LDGS, the allocation of U.S. bilateral development assistance was examined for the two years preceding the implementation of the New Directions legislation (fiscal years 1973-74) and the most recent two years (fiscal years 1979-1980) to assess and compare the intended beneficiaries of AID projects. Included in the research were country-and region-specific projects which were authorized during these years. Projects funded through the Economic Support Fund (which need not adhere to the "New Directions" guidelines) were considered separately. Centrally funded programs such as certain technical assistance programs, American Schools and Hospitals Overseas, narcotics control, or disaster relief projects were not included.

Four main sources of project information from AID were relied upon, a purportedly "complete" listing of all projects from fiscal years 1973, 1974, 1979, 1980; official AID project summaries available for some of the projects; project summaries taken from the annual congressional presentations, Project Papers, and financial data from the Office of Financial Management.

In order to determine the intended beneficiaries of AID projects before and after the New Directions, 1980, all project proposals for all the projects authorized in fiscal years 1973-1974 and 1979-80 were requested from AID early in October 1980. A complete set of project documents was still not available in January 1981. The "complete" list of projects authorized in these years turned out not to be complete at all. Some descriptions for projects authorized in fiscal years 1973-74 totalling \$540 million were available. It is estimated that AID projects totalling approximately \$1,700 million were

authorized during these two years. Thus, less than one third of the projects authorized in those two years are in the sample. Because there is no list of all the projects authorized against which to run any tests for bias, it cannot be determined whether these are representative of the total projects.

Project documents for projects totalling \$1,800 million for fiscal years 1979-80 were obtained. It is estimated that AID authorized projects totalling approximately \$1,900 million during these two fiscal years. Thus, it is likely that there is a virtually complete set of projects for the most recent two years and findings for this period can be considered with much more confidence than for the 1973-74 findings.

It must be noted that the variety and profusion of some, and the absence of other documents greatly complicated matters. The discrepancies found between the amounts given in the Congressional Presentations, the project summaries, and the documents themselves are extremely troublesome.

It would seem a fairly simple task for AID to publish a list each year of all the projects authorized, by country, sector, and amount as is done each year by the World Bank in the Bank's annual report. It would also seem to be a minimal requirement that the Development Information Unit be on the distribution list for all new projects approved so that in the future this unit will have a complete set of project documents.

1. Methodology For Determining Intended Beneficiaries Of Aid Projects

Two researchers read and coded all projects. To reduce the margin of error between coders, sampling was undertaken to test the intercoder reliability of the findings. A high correlation of intercoder results indicated significant agreement in assessment of beneficiaries. When two or more sources were

available on one project, (i.e., both a project paper and a summary) sampling also revealed a high degree of reliability.

All projects were divided into five categories: those in which it was intended that a majority of the benefits would benefit the poor, (1) directly and primarily or (2) directly but partially; (3) indirectly; (4) those which do not at all specify the poor as project beneficiaries; and (5) those in which it could not be determined what group would receive the majority of the benefits. These data are obviously based to some extent on subjective judgments. It should not be inferred that projects in the latter three categories do not benefit the poor at all; nevertheless, the stated beneficiaries were not the poor.

Projects were also classified following AID's budget categories, Agriculture, Rural Development and Nutrition; Health; Population and Family Planning; Education and Human Resource Development; Special Development Activities and Technical Assistance. Specific criteria outlined in the New Directions legislation were noted: Does the project specify the per capita income (in money or land holdings) of the beneficiaries? Does it focus on women? Will it generate significant employment opportunities?

2. Beneficiaries of AID Projects

According to table 1, 26 percent of AID's projects were intended primarily to benefit the poor directly in fiscal year 1973-74 and an additional 12 percent had some direct benefits for the poor. These percentages had increased dramatically by fiscal years 1979-80. In the later period, 72 percent of the projects were designed primarily to benefit the poor and an additional 8 percent had some direct benefits for the poor.

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This would seem to indicate that AID has made significant progress in reorienting its projects since 1973. There is no reason to dispute this finding. However, all that has been measured is intentions -- not results. Also, the analysis is based only on project documents, not actual audits -- (and not even all of the project documents). It is clear that the new projects usually contain key words such as poor majority, rural poor, small farmers, etc. One can tell by reading project descriptions whether they were authorized in 1973-74 or 1979-80. However, to what extent these findings reflect real changes in projects and to what extent they reflect changes in project documents is not verifiable short of actual on-site visits.

Table 1. Distribution of AID Development Assistance by Intended Beneficiaries in Fiscal Years 1973-1974 and 1979-1980

<u>Fiscal Years</u>	<u>Primarily Benefit Poor</u>	<u>Partially Benefit Poor</u>	<u>Indirectly Benefit Poor</u>	<u>Not at All</u>	<u>Could Not Determine</u>
1973-1974	26.4	12.1	13.2	24.8	23.5
1979-1980	72.1	7.6	17.2	2.1	1.1

IV. E. AID'S PROJECT IMPACT EVALUATION STUDIES

In October 1979, the administrator of AID, Douglas Bennett, requested that between twenty and thirty completed projects be evaluated during the coming year. As noted in Part III C above, the purpose of these evaluations was to form the foundation for an agency-wide post hoc evaluation system. The studies were performed by small teams of agency personnel who had had no direct responsibility for the particular projects studied.

As of early 1981, 19 Project Evaluation Reports had been issued. Of the 19, nine dealt with what could be called New Directions projects that had been authorized after 1975. The latter date has been chosen to give AID a fair time period to incorporate New Directions policy into its projects. The remaining 10 studies covered projects which had been begun before 1973 or else could be said not to have been planned with New Directions goals in mind.

The studies themselves are an excellent example of the current state of the art in post hoc project evaluation. Quality is uniformly high and the degree of detail in the text and appendices thoroughly deals with the economic and social impact of the projects. Given the budgetary and time constraints under which the evaluation teams operated, the only criticisms are that they did not deal with the political impact of the projects to the same extent that social and economic impacts were considered, and that they were written by AID personnel for AID. The last comment is in no way intended to discount the conclusions of the 19 reports since they range from findings of failure to findings of solid success -- and the reasons. The various authors were not hesitant to criticize any aspect of the projects: design, implementation, follow-up behavior, etc. However, as AID employees, or AID contractors, it is unlikely they would challenge the agency's basic development strategy.

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Using AID's own evaluations, what answer can be obtained to the question, "how successful has AID been in carrying out New Direction projects?" The answer to the question is even more qualified than a simple reading of Section A of this Part would suggest. The reason is that as a result of the New Directions mandate, it is clear that AID must now meet a two part definition of success. The first part -- which would have been the only part prior to 1973 -- is was the project completed? Was the road actually finished? Does it work? Is it still there? How well is it maintained? What typed of vehicles use it? Have transport costs decreased? etc, etc. A whole series of questions could be asked relating to the road and its economic and social impact. The answers to these questions would determine the success of the project.

Today, the second step on the definition of success is "did the poor benefit and to what extent?" Thus, it is now possible to have a situation in which the road project was clearly a success in economic and social terms but because the poor were not reached, or reached to the appropriate extent, the project could not be considered a success. A few quotations from Impact Evaluation Report #18, Philippines: Rural Roads I and II, highlight this dilemma nicely. After examining in detail the economic impact, the effect on social services and infrastructure, and institutional impact of the roads, the report's first conclusion is:

If the benefits of rural roads projects are to be concentrated on the rural poor, the criteria for site selection must be more precise than those used in the Philippines. The criteria used did not prevent large and medium-sized farms from receiving considerable benefits from the project, despite the project paper's statement that such benefits would be precluded. Moreover, the selection criteria say nothing about tenure status and possible threats to tenure security that might result from road construction. The project has encouraged agricultural growth, but it has done little to promote more equitable growth.

This and other Impact Evaluation reports indicate that AID is trying to reach the LDC rural poor. In many cases the project itself does not "succeed," in others, the project is a physical success but the poor are not reached, or not reached satisfactorily, or other social groups are taking advantage of the benefits.

As a more than passing observation in light of the comments in Part III C of this study on the role of contractors today, of the seven which might be called New Directions projects, AID itself implemented none. Five were implemented by the host government or local jurisdiction, one by a semi-private research institute, and one by CARE.

Summaries of the nine New Directions project impact evaluation studies and a brief preview of whether the studies specifically addressed the question of how well the projects met New Directions criteria appear in Appendix C.

V. CONCEPTUAL AND PRACTICAL PROBLEMS INHERENT IN NEW DIRECTIONS
PROJECTS: A CRITICAL APPRAISAL 1/

Any type of development assistance project involves specific sets of problems and the potential for failure. Often these aspects of a project cannot be perceived clearly until actual experience is gained. This has been the case since the first development assistance projects in the early 1950s. This section should be seen as an effort to identify those specific problems inherent in the New Directions approach that might merit closer attention.

The conceptual and practical problems that arise as a result of attempting to implement New Directions programs can be grouped under three major headings: 1) problems that are inherent in the execution of these types of highly disaggregated redistributive programs; 2) problems that arise in the local environment during or after New Direction project implementation; and 3) problems that are related to the bureaucratic consequences of AID's efforts to carry out New Directions programs.

1. General Problems Inherent in the Execution of New Directions Programs

As Parts I and II of this study indicate, the New Directions mandate was the culmination of a trend to greater specificity in the foreign aid legislation and the belief that the benefits of development were not reaching the lower strata in the developing countries. The legislation itself reflected many of the hopes that had been expressed in the Great Society

1/ Many of the observations in this section are based upon papers by Nicholson, Norman K., The New Congressional Mandate for Aid and Rural Development Strategies. Chapter 12 in The Role of U.S Agriculture in Foreign Policy. Fraenkel, Hadwiger, and Browne eds. Praeger. New York. 1979; and Nau, Henry R. The "New Directions" of U.S. Technical Assistance Programs: A Critique. Address before the Washington Chapter, Society for International Development, given at the School of International Service, the American University. March 21, 1975.

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programs of the late 1960s: the poor were a suitable target group to be recipients of direct government intervention to help them improve their economic circumstances and to participate in the decisions affecting them. Underlying these hopes was the conviction that economic improvement could be the result of direct political action. The same basic thrust underlay the New Directions mandate except that its scope was international and the target group was the rural poor rather than the urban poor. The goals and nature of New Directions programs created a set of problems which AID has attempted to deal with.

The New Directions mandate was a congressionally established redistributive growth policy. The policy was to be implemented by an American aid agency in conjunction with the host LDC government ministries. The characteristics of the target groups were extremely varied and little was known about their relationships to other elements in their societies. In the implementation of New Directions projects, the resources to be delivered had to pass through a series of power centers in which contending political and economic interests fought over their control. 2/

The New Directions policies were to direct benefits to specific economic groups. This meant that, somehow, attempts would have to be made to exclude other--and in most cases, traditionally influential groups from the benefits. Thus, the small farmer strategy had to reach groups with practically no resources; then it had to devise a package of policies and technology that would make the small farmers into efficient producers; following this, that group would have to continue to receive support to insure the viability of

2/ Nicholson, op.cit. p. 216

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the project; all the while trying to keep traditional elites in the region from siphoning off the project's benefits.

Moreover, in the provision of appropriate technology to developing countries, valid questions about the U.S. role can be raised. For example, what comparative advantage does AID, an American institution, enjoy in the provision of low technology, labor intensive technical advice? ^{3/} For example recent American agricultural experience differs dramatically from what is being proposed for the LDCs today: in the United States, large-scale, high-technology, low-labor input, market provided complex financing arrangements, and relatively little government intervention in marketing decisions have brought great success. Almost all of these factors are considered undesirable for LDCs from the perspective of the New Directions mandate and therefore are not to be fostered. The AID emphasis on encouraging land reform, for example, is a current example of policy that is contrary to U.S. historical experience. In addition, much of the success of American agriculture is based upon cultural characteristics of American business and farmers. The ability of advisors rooted in the American tradition to devise successful strategies for development in radically different cultural settings is still open to question.

The decision to favor the least advantaged groups and to try to insure that they benefit from the projects produces continuing high overhead support costs in comparison to other types of development activities. These costs are both economic and administrative. The economic costs are incurred as scarce resources are invested in a group that is less capable, or--in some cases, perhaps,--incapable, of efficiently using them for productive purposes. It is assumed that by providing this group with productive inputs of the existing

^{3/} Nau, op. cit. pp. 10-13

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social and cultural impediments to economic success will become unimportant. The administrative costs take the form of additional government employees necessary to make the initial delivery of goods and services and, later, to insure that those resources continue to be received and are not diverted to other social groups.

The political consequences of New Directions programs can be great. Essentially, New Directions programs involve efforts to by-pass, to a greater or lesser extent, existing political and social structures by a foreign government agency to deliver services directly to the least productive group in the recipient society. While the intentions of the New Directions programs may be humanitarian or development oriented rather than political, their effects, whether the actual projects are successful or not, go directly to the basic relations among competing social and economic groups in LDC society. These are potentially more far reaching than any "political" deals struck with LDC governing elites. 4/ Furthermore, the mandate assumes that participation in the political process by this economically disadvantaged group will somehow have a salutary political outcome. While the latter is possible, the mobilization of a politically aware, economically disadvantaged group can also result in increased demands for services, increasingly unrealistic expectations, and greater instability. In addition, the linkage between U.S. foreign policy goals and New Directions projects generally or any specific New Directions project in particular, is often tenuous at best. Calculations of political returns, other than perhaps expectations of a general sense of gratitude either from the recipients themselves or LDC elites, are practically impossible to make with New Directions programs.

4/ op.cit. p.18

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The role of LDC elites in the New Directions process is itself anomalous. If the projects succeed in their own terms--the INVIERNO project in Nicaragua discussed in Part III E is an excellent example--they by-pass the existing political and social structure. On the other hand, it is unlikely that New Directions projects will succeed without a firm political commitment from the same elites. The assumption seems to be that host country elites--regardless of the resource endowment of the country--do not "care enough" about their poor whereas the external donor does.

Another problem that has arisen in New Direction projects is their continuing need for economic or bureaucratic support and maintenance. Many of the health programs require levels of staff and material support the host countries seem unable to provide. Neither conceptually or administratively have New Directions projects been concerned with income generation. Yet this income is necessary if the projects are to continue. The project may be a "success" in terms of delivery of services or technology, but a failure because it is not self sustaining. Thus, like the Sine Saloum rural health care project in Senegal, the projects are established, but because they are not integrated into the local economic, political and social system, they are not continued.

2. Field Problems

The successful implementation of New Directions projects requires a very sophisticated awareness of local conditions in the design and implementation stage. But, it is the nature of the AID design and contracting processes that project planners are often inadequately familiar with crucial details about local conditions. Among these details are knowledge about the economic, political, or social circumstances which exist in the project area before the

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project is undertaken. The inadequacy of knowledge about specific local conditions cannot be inexpensively remedied. The gathering, analysis and communicating of these data to those responsible for project implementation would be very staff intensive and time consuming. Given the same New Directions mandate, but fewer, and larger projects, it might be possible to justify this significant expense. However, for the many small New Directions projects, the expense is difficult to justify.

For mission personnel, New Directions projects involve new types of relations with the host country populace. Since the target group for New Directions projects is the poor, the AID mission official must bridge the cultural gap in order to know project recipients. Many mission officials do not do this very well; it requires changes in life-style that are difficult or distasteful to carry out. For those who do, there may be another problem. They may meet with disapproval from U.S. Embassy staff who begin to think of the mission as "going native." Or, the host country government may think that the mission staff is too far in front government policy.

New Directions projects are difficult to negotiate with many developing country governments. Earlier projects, for example, large dams and roadworks could be used by host country governments to legitimize their political systems. New Directions projects are not as visible; they are not in capital cities; they are not intended to benefit the elites who often are key supporters for these governments. Many host country officials have reservations about a basic needs strategy, and they are concerned about maintaining their political support--a support that often does not come from the rural poor.

New Directions projects are more difficult for AID personnel to negotiate with U.S. Embassy staff. For example, the Ambassador may not be persuaded that they give him any special advantage in his dealings with the host country.

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The relationship of the U.S. ambassador and the AID mission director is of central importance. The ambassador must sign off on the Country Development Strategy Statement. If the ambassador encounters assertions from the host country officials that development assistance is not responsive to their own agenda, (for reasons, such as those discussed above) he may withhold his approval.

Another major difficulty with New Directions projects concerns the creation and continuation of local structures needed to insure participation by project beneficiaries. The outside contractor must create some sort of organization to receive and direct the project benefits and to articulate the needs of project beneficiaries. A major goal of this activity is to provide the poor with some sort of organized capacity for local control over the additional resources intended for them. But, positive long-term results are unlikely unless this type of political technical assistance creates structures or institutions that draw upon indigenous strengths. The difficulties in creating self-sustaining quasi-political institutions are enormous; especially when efforts to do so are based on models of participation unsuited to the project environment. Not only are the social structural bases and behavioral skills often poorly developed, but also functioning local governments are likely to see this sort of intervention--whether actively supported by the national government or not--as a threat to their authority. On another level, the longer-term New Directions project support requirements can also function as a drain on local resources. As Nicholson has observed, "It is possible for national governments and foreign aid donors to build roads. It is typically

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impossible for local governments to maintain them afterwards." ^{5/} The Philippines Rural Roads Project discussed above provides is an example of this problem.

AID's increasing commitment to contractor implementation also creates problems that are particularly severe in New Directions projects. Because certain projects, for example those dealing with integrated rural development, demand a high degree of coordination and organizational coherence, contractor inadequacies in these areas are of great concern. Problems with contractors are more difficult to diagnose promptly and more difficult to correct than projects wholly under AID's control. In addition, especially in the area of agricultural development, some contractors--for reasons they find professionally convincing--have shown themselves to be strongly opposed to certain New Directions strategies. In these instances, some contractors may pursue goals that are primarily production oriented rather than oriented to the poor and to their participation in the development process.

3. New Directions and Bureaucracy

The bureaucratic problems engendered by New Directions programs affect both AID and the host country.

For AID, New Directions programs require different types of planning, implementation, and evaluation processes. New Directions planning is intended to create programs that accomplish the goals set out by the legislation. Thus, concerns are not so much with the concrete measures needed to insure economic development, but rather with those measures needed to direct project benefits to the poorest LDC residents. Questions about the appropriate incidence and distribution of benefits now occupy significant parts of the

^{5/} Nicholson, op.cit. p. 232

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planning process. How poor does a group have to be to qualify? What does "non-poor" mean in a context where average per capita income may be only \$500 a year? What must be done to insure the proper distribution of project benefits?

From AID's standpoint, oversight of New Direction--as opposed to conventional--project implementation requires much more sustained, detailed involvement in the process. The amount of staff time needed to insure a desired result is greater. The interplay now required with host country ministries and contractors involves AID in political and bureaucratic processes over which it has little control. Thus, AID employees are put in the position of depending upon others to insure project success.

The elaborate project design and evaluation process is partly a result of the New Directions mandate. Clearly, AID has for many years needed some sort of post hoc evaluation method that was integrated back into the planning process. But, the difficulty of isolating New Directions project contributions from contributions of the myriad other forces at work in any economy has led to elaborate project designs and more detailed post hoc evaluations.

One result of the current AID effort to obtain more feedback might be a planning process that is even more elaborate and time-consuming than at present. A likely bureaucratic response to consequent criticism would be to narrow the definition of projects so that only specific and highly detailed ones are proposed.

Most of the bureaucratic problems encountered by host country organizations attempting to administer New Directions programs are variants of those encountered by AID. A few, however, are unique to the LDC setting. Of particular concern is Nicholson's observation that concern with direct delivery of services to the poor seems to encourage increasing bureaucratic centralization

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and regulation within recipient countries. ^{6/} The field-oriented, small project focus of New Directions programs is much more labor intensive than were previous development strategies. And, it is a peculiar type of labor intensiveness. For, while LDC governments frequently control a larger percent of their country's GNP than developed country governments, they are usually chronically short of trained administrators. New Directions projects require these trained administrators and they also require the existence of their support organizations in the central ministries. As such they are doubly resource intensive. Ironically, part of the New Directions mandate involved moving away from investment in manpower training and higher education. Thus, not only were the skilled manpower shortages within these countries not addressed by the New Directions policies; at the same time, the same skilled manpower was needed to implement the projects.

Finally, as noted above, "integrated" programs are even more complex administratively. From the host country perspective, they require decentralization in typically highly centralized administrative systems, and inter-ministerial cooperation in highly segmented bureaucracies. Above all they require even more intensive uses of scarce staff resources.

^{6/} Nicholson, op. cit. p. 222-223

VI. A. FUTURE BILATERAL AID POLICIES 1/

The range of alternatives to current U.S. bilateral development assistance programs--assuming that one wished to continue a program aimed solely at development in LDCs--is fairly wide. In short hand terms this range can be illustrated as: expanded New Directions, different New Directions, and reduced or no New Directions. The last category would include such alternatives as an increased Economic Support Fund, a return to much greater support of infrastructure projects, and a "no strings" aid policy.

1. Expanded New Directions

The programs that would be included in this category involve a continuation of the current New Directions thrust, with possibly an even greater emphasis on social technical assistance programs and an expansion of the target group. Programs envisaged here would involve more outreach to the rural poor and also the urban poor, specific targeting of those groups which are not the focus of current programs. Greater emphasis could be placed on community action programs and the integration of women into the decision making process. As a concomitant, less attention would be devoted to the impact of these new New Directions programs on the local and national economies. AID would become a learning, teaching and demonstration agency with a much greater reliance than at present on contractors. Because of the expansion of focus to cover the urban as well as the rural poor, new outreach programs for the urban poor would be developed.

1/ The total U.S. aid package presently consists of separate programs for bilateral and multilateral food aid, bilateral military assistance, multilateral development bank programs, and separate multilateral development programs such as the U.N. Development Program. The justifications for and relationship between a bilateral development assistance program of whatever configuration and these other programs is a subject for a separate study and will not be covered here.

2. Different New Directions

This set of programs would use some of the New Directions target groups and program, but reform the programs. Here the rural poor might remain the focus of the programs, but the primary goal of U.S. effort might be the creation of specific income generating programs or technology transfer by individuals more directly tied professionally to the goals to be achieved.

Thus, programs might involve more intensive use of farmers, or perhaps agronomists in agricultural programs; physicians or nurses or educators in health care delivery; small businessmen or small firm financial advisors in local enterprise creation. The primary purpose of the programs would be to provide advice and, where needed, commodities to create self-sustaining economic units that would be capable of functioning in their existing environments. A possible approach would be to provide technological support to training centers through which technological insights could be more widely diffused to the poor than is possible through direct aid programs. Less attention would be paid to project design by AID since the goals of the projects would involve the adaptation of existing economic activity to the host country environment.

3. No New Directions

To a greater or lesser extent, one of these policies, the increased use of the ESF, has become the option for a very large portion of the U.S. bilateral economic aid program. For fiscal years 1979 and 1980, over 45 percent of bilateral U.S. economic assistance was provided through the ESF--admittedly to only a very few countries.

Current uses of the ESF include the entire range of economic aid programs: cash grants, commodity import financing; projects that could clearly be called infrastructural, and some that are clearly New Directions.

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A second major option under this heading would be a return to a greater emphasis on infrastructure development and support. Here U.S. aid could be specifically aimed at the construction of such physical infrastructure elements as roads, dams, and electric transmission lines, or the provision of such social infrastructure elements as banks, credit unions, and cooperatives. This option would involve AID personnel directly in the execution and supervision of infrastructure projects, and would, like the different New Directions noted above, be intended to produce tangible products with specific economic impacts.

A variant of this option could be called "no strings" development assistance. This would be similar to general program lending in that the transfers would be almost entirely financial, but different in that the transfers would be directed at specific projects. Thus either an AID field mission or the host country would present a request for a specific project in enough detail for AID Washington to make an educated guess as to its desirability and feasibility. Then AID would authorize the entire sum of money for the project -- in tranches if needed--and then let the host country carry out or contract to carry out the project. Criteria with respect to economic practicability and compatibility with U.S. foreign policy goals should be clearly established and followed.

One "No New Directions" alternative that should be mentioned here would have even fewer strings attached and would involve grants or loans for general tasks or purposes--very much like the Section 451 Contingency Fund in the 1950s and 1960, or Security Supporting Assistance program loans. Here the money would not be tied to specific development projects--though support for these could be undertaken with this type of funding. Instead the funding would be provided directly to the host country government for general purpose use.

B. POTENTIAL COSTS AND BENEFITS OF SPECIFIC FUTURE BILATERAL AID POLICIES

The purpose of this section is to assess the potential costs and benefits of the three illustrative in options bilateral aid policy set out above in light of the major actors or interests: U.S. foreign policy, the LDCs, Congress, and AID.

1. Expanded New Directions.

The impact of expanded New Directions on U.S. foreign policy is difficult to anticipate. For those relatively few countries that are enthusiastic supporters of New Directions style projects, more of the same would probably be welcome. The extent of that welcome would depend upon the ability of the host country to incorporate more New Direction style activities into its bureaucratic operations. A further issue might involve the continued financing of New Directions costs after the initial projects had been put into place by AID or another donor. Host governments with relatively healthy, growing economies might be more likely to accept the fiscal commitments for project continuation that are often associated with New Directions efforts. For those countries that are opposed to New Directions programs as currently structured, either because of potential political instability generated by the projects, long-term continuing financing problems, increased administrative costs, or other reasons, expanded new Directions would most likely not be welcome.

One possible outcome would be for LDCs to welcome more New Directions in public statements and international forums, but to oppose such an expansion privately. In this case, the overall effect on U.S foreign policy would be difficult to assess since the gap between private and public statements would give mixed signals to U.S. foreign policy makers. Some LDCs that were willing to accept existing New Directions projects might balk at their extension to an

urban environment on the grounds that this would involve the United States and the host government to an unacceptable degree in processes that could be extremely destabilizing politically.

The political returns to the United States from carrying out expanded New Directions may be small. Since the purpose of the programs would be to help more of the poorest of the poor in the LDCs, unless these individuals were able to organize in favor of U.S. interests--an extremely unlikely outcome--U.S. political benefits from more New Directions would depend almost wholly on the reaction of LDC governing elites to the new programs. If the new programs succeeded and provided political benefits to those elites, there is the possibility that they would recognize this and be grateful to the United States. On the other hand, if the programs appeared on balance to stimulate political instability and fiscal strain, the United States could suffer from both the perception and the reality of having weakened the effectiveness of Third World country elites.

From the point of view of AID, expanded New Directions would imply a victory of those arguing for a participatory strategy against advocates of a sectoral strategy, a debate discussed in Part III A of this study. Part of this resolution would involve less emphasis on activities that contribute more directly to economic growth. AID would probably rely to an even greater extent on contractors, and continue to evolve into a project design and monitoring agency. More separate small projects for a given amount of funding would be likely. Extending New Directions policies to urban environments would mean hiring and training more (and different from present) professionals to plan and monitor programs. Further, it would require the creation of new and more fully developed approaches to urban economic, political, and social development to guide the new outreach programs. This evolution might be a very lengthy process.

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More New Directions would probably entail the same, or greater, detail in planning and executing projects. In addition AID would have to deal even more extensively with the host country ministries responsible for urban affairs.

The likely reaction of Congress to expanded New Directions would depend upon the extent of the political support for the basic idea of giving aid directly to the poorest dwellers in the developing countries. Those in favor of such aid would be more likely to support its expansion. Those currently opposed to New Directions policies will most likely oppose their expansion. A middle group might be persuaded to support more New Directions if the proposed programs were shown likely to be successful and, most importantly, did not appear to add significant increases in costs to the federal budget. More New Directions could be presented as a way of maintaining a U.S. presence in the Third World at a relatively low cost.

From the standpoint of congressional oversight, expanded New Directions would most likely make more work. The projects themselves would be more diverse and numerous than at present. Overseeing their execution and determining their costs and benefits would be more difficult as would be determining the political returns to the United States from individual projects. Also, determining how effective AID was in its operations would most likely become more difficult.

2. Different New Directions

Different New Directions would focus on continuing to target U.S. development assistance projects at the poorest rural dwellers in the developing countries and, at the same time, make the projects economically

viable. Significant private sector participation and greater attention to technology transfer might be elements in this approach.

The foreign policy returns from different New Directions projects could be somewhat greater than at present. Elites in those countries that currently welcome New Directions projects might be pleased that the poor were becoming active contributors to the economy if income generating efforts were successful.

The main problem with the different New Directions approach is that it still would not address LDC infrastructure needs. Even if the projects were viable in themselves, they would probably not contribute significantly to the building of a self-sustaining modern economy over the short. A secondary problem could be conflict between the possible private sector ethos of some of the programs and the generally statist outlook of LDC elites.

One of the main effects of following the different New Directions strategy would be to resolve the participatory versus sectoral strategy controversy in favor of the latter position. The impact of economic phenomena on different New Directions projects and of the projects on the economy would have to receive primary consideration in the design and implementation of projects. The existing complex planning process would most likely remain the same--and might even be added to. AID would continue to be a project designing and monitoring agency with relatively small amounts of field operational responsibility. The complex interaction between host country bureaucracy, AID mission personnel, and project contractors would also probably continue relatively unchanged. However, the end product of the process, jobs or economic growth, if successful, would be obvious and visible.

For Congress, different New Directions could be seen as an evolution of current policy, rather than as a major policy change. Different New Directions could be presented as an improved New Directions. The fact that

this policy would be a modification of existing policy is both a strength and a weakness. Those who approve of New Directions might prefer expanded New Directions, but in the end would most likely support different New Directions. Those opposed to New Directions --or aid in general--would most likely not be converted to support by this policy. A main problem with this option in the current budgetary environment is that it is not a sufficiently dramatic change from existing policy.

3. No New Directions

The specific impact of this general policy would depend upon which of the three options in this category were chosen: increased ESF, new infrastructure, or "no strings."

Increased ESF would offer greater flexibility than currently exists to program development assistance that was substantial in amount, could be fairly quickly dispensed, and related to specific economic growth, infrastructure, or balance of payments needs. New infrastructure would be a return to attempting to deal primarily with the physical infrastructure needs of the developing countries. No strings aid could take two forms: in one, a direct cash transfer to the intended beneficiary country for certain stated projects with AID involved in the final contract monitoring and disbursement; in the other, AID would act as a turnkey project financier for U.S. firms to deal with. In the latter case, the design, execution and most of the inspection of the project would be done by the contractor. AID's role would involve initial planning and final inspection and disbursement.

Increased ESF, new infrastructure, and no strings aid would most likely be very popular with LDC recipient governments. The returns would be directly visible to them and the kinds of potential political and social dislocations

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possible with New Directions projects considerably less. Whether this popularity would translate into support for U.S. foreign policy goals is problematic. The programs, depending upon their content, would complement or compete with the activities of the multilateral development banks. This could dilute the political impact of the U.S. efforts but increase their economic effectiveness. The mirror image of the many, smaller, and less expensive New Directions projects, no New Directions would involve fewer, larger, and more expensive projects. Thus, one of the main questions this policy would leave unanswered is whether enough resources would be made available to make it effective in either political or economic terms. It would be easier to "maintain a U.S. presence" with more numerous, smaller New Directions projects than the few no New Directions projects. This particular problem is more acute today than it has been in the past for two reasons: there are many more potential recipient countries, and, because of inflation, a few large capital-intensive efforts could use up all of the resources likely to be appropriated for bilateral development aid.

The implications for AID of the three types of no New Directions aid are different. For expanded ESF and new infrastructure, AID would have to hire more individuals who were actually involved in project implementation. The type of personnel required would be more like those at AID in the early 1960s when the agency was heavily involved in infrastructure building. No strings aid staffing would resemble present desired staffing patterns--but with entirely different professional specializations--since they would be involved mainly in the initial design and specification setting stage and in final inspection. A change to no New Directions aid would probably suspend the current debate inside AID between proponents of the participatory and sectoral

strategies and replace it with arguments concerning the macro and micro economic impact of specific projects and their political return.

Because no New Directions projects would be larger, fewer, and more measurable, congressional oversight problems would be more manageable than is currently the case. On the other hand, especially with no strings aid, Congress might feel that the opportunities for corruption or diversion were so much greater that closer oversight was needed.

APPENDIX A

MAJOR CHANGES IN THE AID ORGANIZATIONAL STRUCTURE

Introduction

Since its establishment nearly 20 years ago, A.I.D. has experienced four major changes in structure. The following statements focus largely on the structural arrangements that resulted from the four changes. Programmatic and other major emphases during these periods are expressed in other documents (e.g. relevant delegations of authority, policy statements, budget allocations, etc.). The following statements highlight some of the more general assumptions and objectives for each of the four changes.

September 1961

In the new AID organization, strong regional bureaus were created in Washington to bring into sharper focus regional and country development analysis and administration, as distinct from functional specialization, and to encourage closer cooperation with the Department of State. Primary emphasis was placed on the less developed country itself, through the strong regional bureau structure. The chain of command to the field ran in a direct line from the Administrator to the Assistant Administrators in charge of the regional bureaus, and thence through the Ambassadors to the Chief of the Country Missions. This relationship is expressed in the original organization chart submitted with the President's message to the Congress in 1961.

February 1972

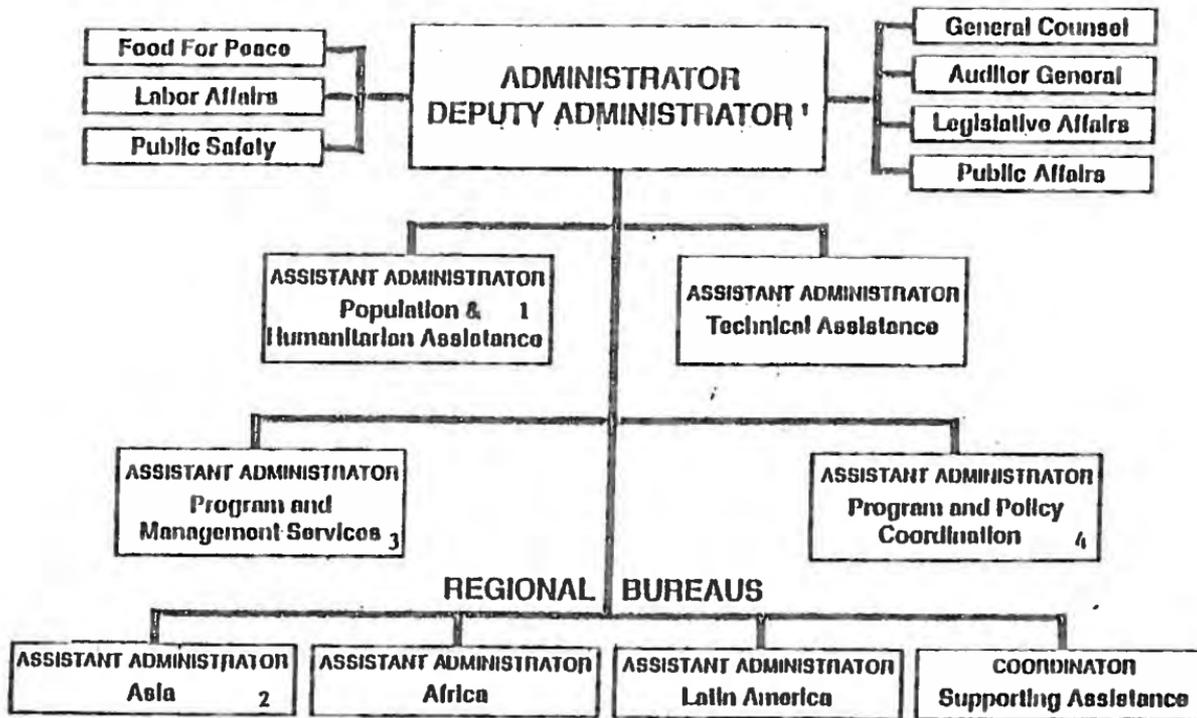
The AID Reform plan -- based on the new concepts of foreign assistance contained in the President's Message of September 1970 and April 1971 -- was the first major change in program direction and organizational structure of AID since the Agency's inception in 1961. The plan introduced basic changes in AID's programming policies, priorities, style of operations, and organization, within the constraints of existing legislation, in order to respond more effectively to the development problems of the 70s.

To implement the organizational aspects of the Reform Plan, AID:

1. Brought together, under central direction, overseas private voluntary programs, disaster relief, and general relief and rehabilitation activities of the former Office of Private Overseas Programs; and population activities formerly performed in the Technical Assistance Bureau and the geographic bureaus.
2. Combined in a new Bureau for Asia the development programs administered by the former Bureau for Near East and South Asia and the former Office of East Asia Development Programs.
3. Centralized, in a single Bureau for Program and Management Services, Agency support services in the areas of participant training, contract services, commodity procurement, engineering, controller, personnel, management planning, data systems, and administrative support services.
4. Reorganized the Bureau for Program and Policy Coordination to include, in addition to its former responsibilities: (1) a consolidated budget office combining the staffs concerned with budgeting in the Office of the Controller and in PPC; (2) a technical assistance staff to provide a central point for processing Agency projects to assure consistency with policy and sector objectives; (3) the staff and functions of the Office of Evaluation from the Office of the Administrator; (4) a strengthened policy analysis office; and (5) a strengthened international assistance coordination office.

The first AID organization chart to reflect these changes was issued February 17, 1972.

Agency for International Development



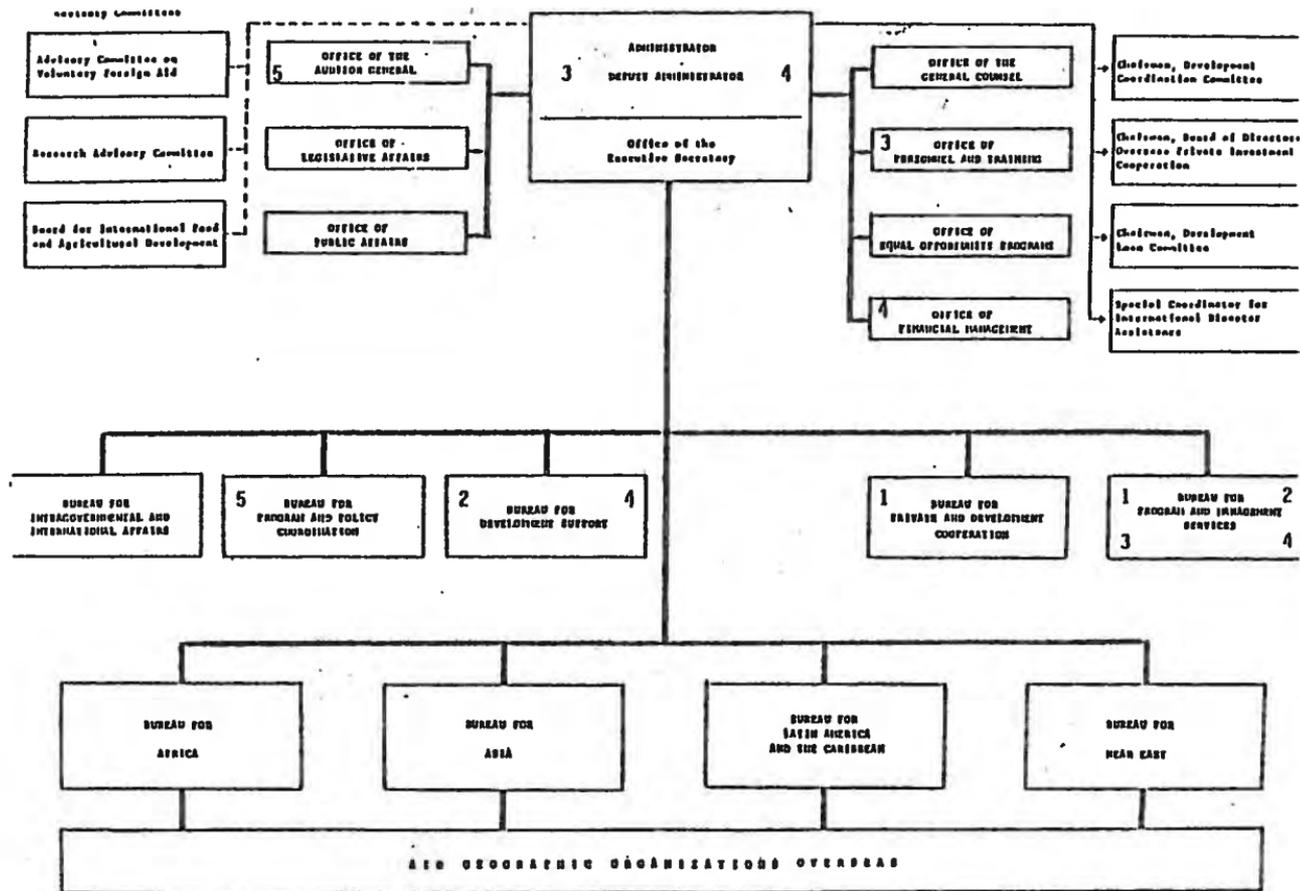
* Includes Director of Equal Opportunity Programs.

2/17/72

March 1978

By March 1978 the AID Reorganization Task Force appointed by the Administrator in mid-1977, had, for the most part, completed its functional review of the Agency and recommended a number of major changes in program direction and organizational structure, many of which were approved by the AID Administrator. This reorganization, commonly referred to as the AID Reorganization of 1977-78, included the following changes:

1. Established a new Bureau for Private and Development Cooperation, with responsibility for encouraging the effective participation of nongovernmental institutions in support of AID's developmental and humanitarian objectives. The new Bureau was composed of the formerly independent offices of Food for Peace, Reimbursable Development Programs, Office of Labor Affairs, U.S. Foreign Disaster Assistance, and the Office of Private and Voluntary Cooperation (transferred from the Bureau for Population and Humanitarian Assistance). The Office of Foreign Disaster Assistance continued to provide line support to the President's Special Coordinator for International Disaster Assistance (the AID Administrator).
2. Established a new Bureau for Development Support, incorporating certain functions of the former Bureau for Technical Assistance, Bureau for Population and Humanitarian Assistance, and the Bureau for Program and Management Services. Primary responsibilities included supporting Mission and Geographic Bureau development efforts in agriculture, health, nutrition, population, education, rural and urban development, science and technology development, housing, international training, development information and energy. As a result of the reorganization, the role of the Geographic Bureaus was strengthened by the transfer of selected country and region-wide programs, and associated staffs, including technical, engineering and population personnel.
3. The Office of Personnel and Manpower was transferred from the Bureau for Program and Management Services, along with its labor relations function, and was established as an independent office, reporting directly to the Administrator. The office was redesignated the Office of Personnel and Training.
4. The Office of Financial Management was also transferred from the Bureau for Program and Management Services, along with the workforce allocation function and was established as an independent office, reporting directly to the Administrator.
5. Reassigned within the Bureau for Program and Policy Coordination the economic coordinating function, including both development and supporting assistance, with military assistance (previously performed by the Regional Coordinator and Military Assistance Staff of PPC), to the immediate Office of the Assistant Administrator of PPC. Incorporated also the Office of Women in Development (formerly an independent office), and the Operations Appraisal Staff (previously an element of the Auditor General's Office).



Effective Date: March 3, 1970

October 1979

Effective October 1, 1979, the U.S. International Development Cooperation Agency (IDCA) was established. (See IDCA chart above.) The new Agency was assigned primary responsibility for establishing overall development assistance policies and for international development activities supported by the United States. Pursuant to Reorganization Plan No. 2 of 1979 and the implementing Executive Order, the Director of IDCA serves as principal advisor to the President on international development matters, including trade, investment, science and technology, and other economic matters significantly affecting developing nations.

IDCA Delegation of Authority No. 1 provided for:

- the continuation of A.I.D., previously established in the Department of State, as an Agency within IDCA;
- the continuation of the Overseas Private Investment Corporation as a government corporation within IDCA, with the IDCA Director serving as Chairman of the OPIC Board; and
- the establishment within IDCA of the new Institute for Scientific and Technological Cooperation (ISTC), the effective date for which was postponed pending further Congressional action.

In addition to the authorities delegated to IDCA relating to A.I.D., OPIC, and ISTC, certain other responsibilities were assigned in regard to Multilateral Development Banks and International Organizations.

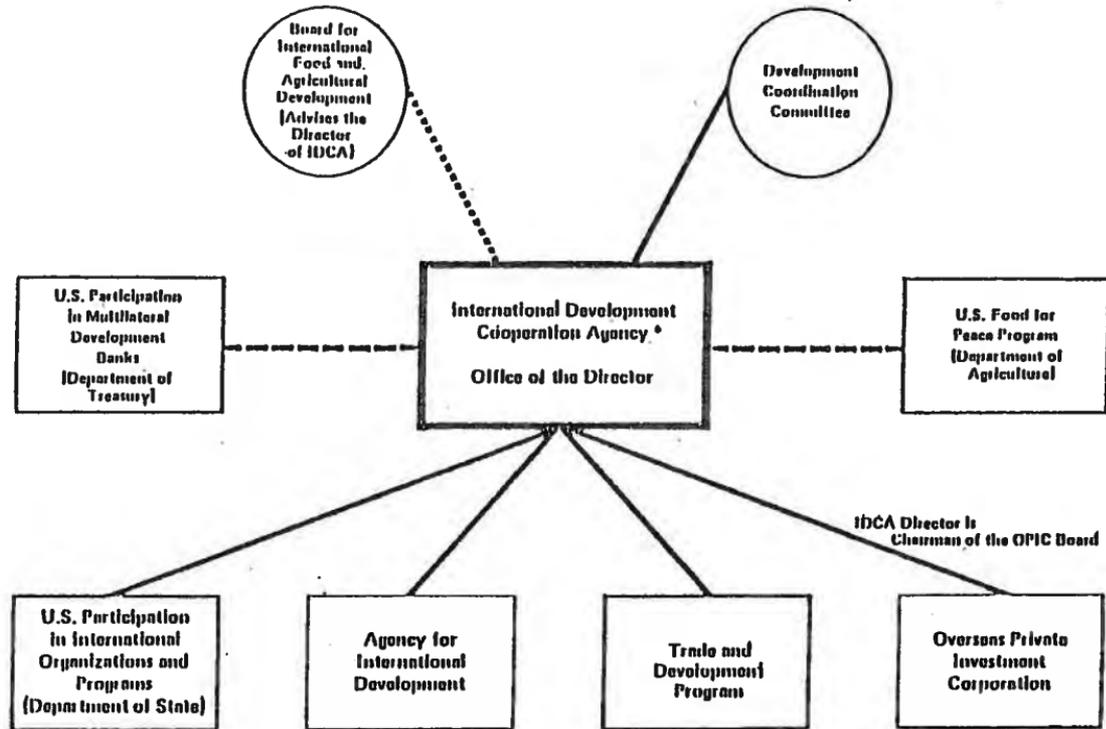
A.I.D. was assigned responsibility for providing certain support services to IDCA and OPIC as well as ISTC upon its establishment.

Subsequent to the establishment of IDCA, the A.I.D. Office of Reimbursable Development Programs was abolished, effective July 1, 1980. Concurrently, the Trade and Development Program (TDP) was established within IDCA. The Director of TDP was delegated the functions under the FAA necessary to carry out the programs authorized by Sections 607(a) and 661 of the FAA except as they relate to the Excess Property Program in A.I.D.

On November 4, 1980 the A.I.D. Administrator approved the establishment of a new Independent Office within A.I.D., the Office of the Science Advisor. The Office serves as the vocal point within A.I.D. for articulating the role of science and technology in development.

The resulting (current) organization chart for A.I.D. follows.

U.S. INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

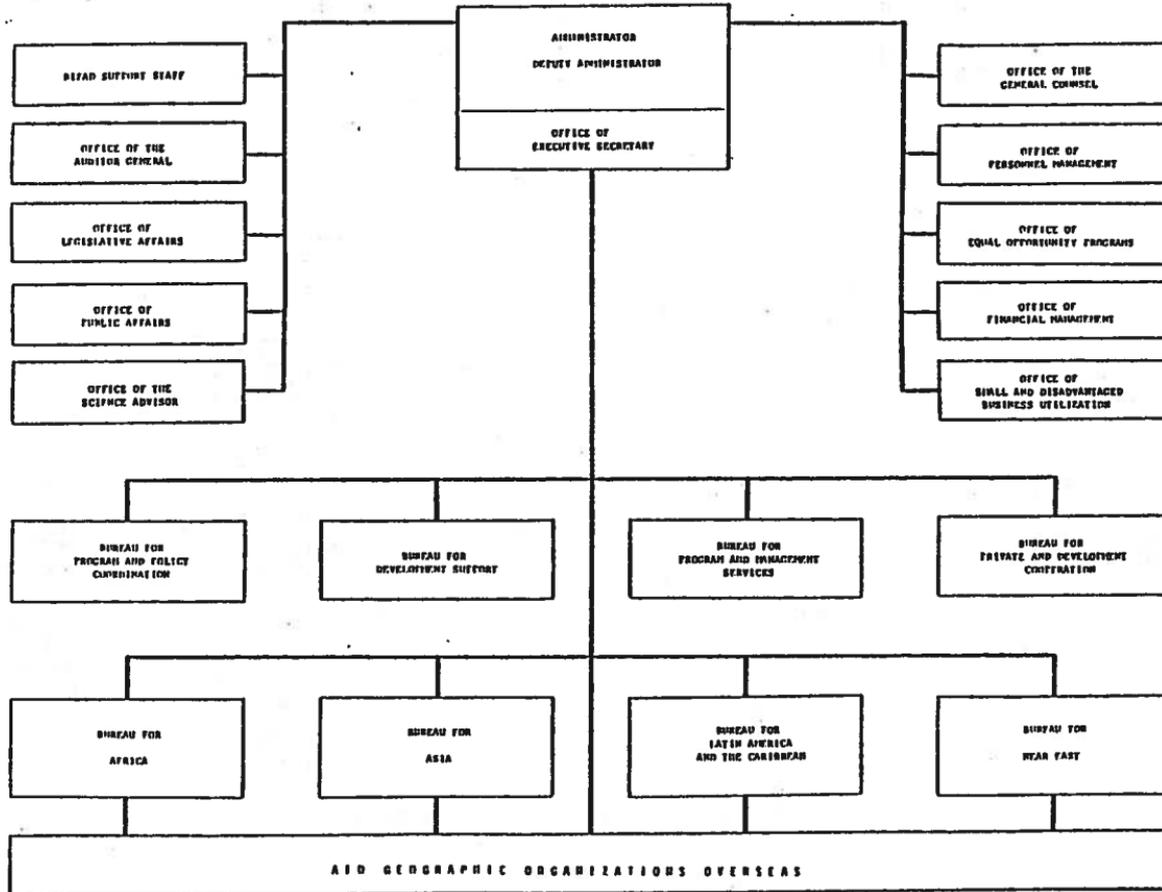


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Effective Date: July 1, 1980

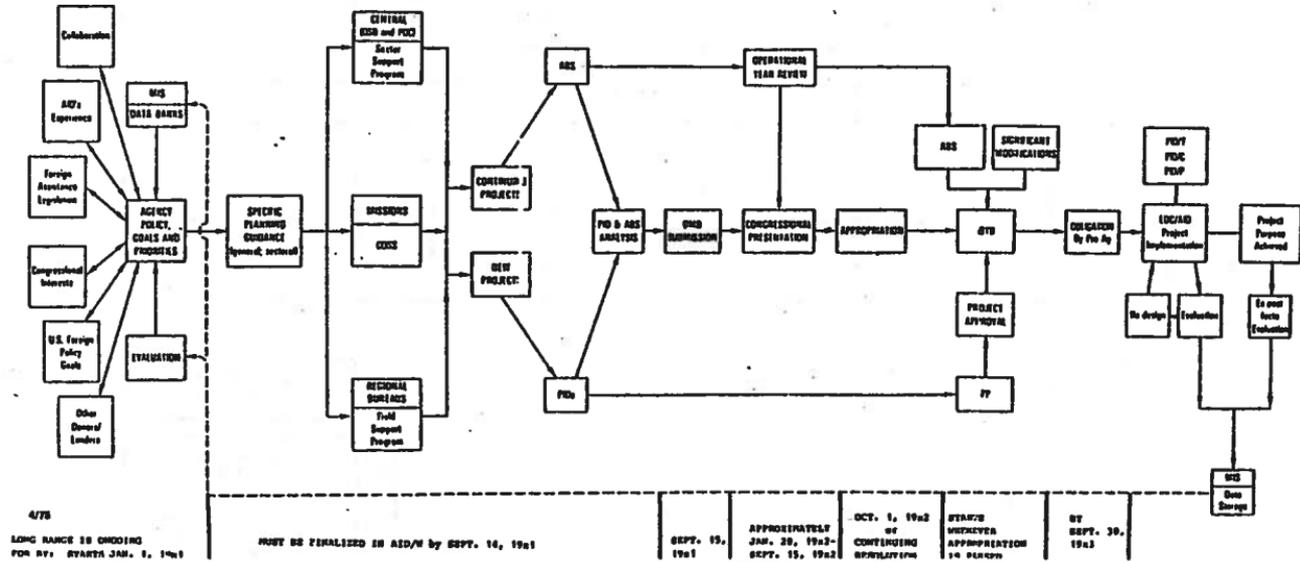
* Congressional action has not yet been completed on the proposal to establish an Institute for Scientific and Technological Cooperation as an operating unit of IDCA.

Agency for International Development



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THE AID PROGRAMMING PROCESS



APPENDIX C

1. SUMMARIES OF NEW DIRECTIONS PROJECTS IMPACT EVALUATION STUDIES

a. Colombia: Small Farmer Market Access

AID Project Impact Evaluation Report No. 1, December 1979

In 1975, AID approved a \$5 million loan to support the Colombian government's rural road construction program. The government of Colombia contributed \$7 million in pesos. The project, not yet completed, would result in the construction of 59 all-weather, unpaved mountain roads of 8 kilometers average length. The roads would link the mountain communities to market towns. Access to markets would encourage agricultural production. In addition, access roads would open the communities to agricultural extension, as well as health and educational institutions and services, which would further contribute to the improved welfare of the campesinos.

Those people who live in the mountains of Colombia are among the poorest people in the country. The AID team identified substantial and immediate benefits to the rural poor in those regions serviced by the roads. The road resulted in a dramatic drop in transportation costs as farmers switched from pack animals to motorized transport. Signs of increased agricultural activity abounded and were marked by small storage shacks built by campesinos alongside the road to act as collecting points for truck pick-ups. These production increases stemmed from both more intensive and more extensive cultivation. The AID team encountered clear indications that farmers took the initiative to increase their use of agricultural credit, fertilizer, and improved seed in light of perceived opportunities to increase income as a result of improved access.

The rural poor of the mountain communities also benefited from improved health care. The ill were able to be transported more quickly and comfortably to facilities in towns and the campesinos realized and took comfort in this. Newly-established stores carried more protein foods, such as condensed milk and sardines, than before the existence of the roads. And farmers, by growing more food, were able to meet the caloric requirements of their families more easily. The enthusiasm of the campesinos for this new road and its influence on their lives are difficult to exaggerate.

The success of the program has depended upon both the initiative and on-going participation of the campesinos. In addition to the benefits to farmers, campesinos who worked on the roads received additional income. The beneficiaries of the labor-intensive construction were the marginal farmers, landless, and unemployed in the communities. They also acquired skills while working on the roads such as cement utilization, leveling, and water diversion which they have been able to apply to improve their homes and farms.

The "New Directions" project to construct roads in Colombia has dramatically improved the quality of life in all the communities visited by the AID team. The project has reached the poorest people in the country, and farmers and the landless have participated on a wide scale. The project offers a replicable model to benefit the rural poor.

CRS-2

b. Philippine Small Scale Irrigation
AID Project Impact Evaluation Report No. 4, May 1980

The government of the Philippines' concern for increased agricultural production and an improvement of the standard of living of farmers has resulted in the concept of farmer cooperative associations, formally called Irrigators Service Associations (ISA). There are over 1000 ISAs ranging in size from a few to 200 hectares, which borrow money and repay loans, cover costs of electricity, arrange for the equitable distribution of water, build canals, provide maintenance, and so forth. The ISAs are organized into the Farm Systems Development Corporation (FSDC) under the office of the President.

The major focus of the FSDC is increasing rice production. Two AID projects have supported the Corporation. The first project aimed to increase farmer income, to at least double employment opportunities, and to decrease the national rice deficit by 50 percent. The follow-on project shifted further toward improving the quality of life for small farmers by supporting irrigation projects. AID assistance totalled \$18.3 million and was used for buying commodities and pumps, and for rehabilitation and farm support systems. The main problem of small farmers was an unreliable water supply, so funding was concentrated on engineering.

The economic impact of the projects was to increase rice yields and the opportunity for double cropping. Approximately half of the farmers involved were able to plant two crops per year and harvested more from each crop. Rice production can increase by as much as two to three times over rain-fed production conditions. The fundamental problem is that with rising costs the majority of farmers are already behind on their irrigation loan payments. Double cropping requires more time working in the fields, leaving less for off-farm employment that generates additional income. Yet, farmers have no doubt benefited from the projects.

In almost all cases, including those in which the ISAs were experiencing trouble, the farmers have articulated the benefits they have gained from irrigation. The introduction of irrigation systems has closed the nutritional gap by providing food for the "starving months." There were virtually universal statements that additional funds were used to pay school tuition fees.

The project has resulted in visible and immediate benefits to small farmers. The beneficiaries, while not the lowest income groups in rural areas, were subsistence farmers whose income placed more than half of them below the poverty level as defined in the Philippines. The Philippines is now self-sufficient in rice. The projects assisted in reaching that goal, although it is impossible to determine the degree to which these projects contributed to it.

CRS-3

c. Effectiveness and Impact of the CARE/Sierra Leone Rural Penetration Roads Project
AID Project Impact Evaluation Report No. 7, June 1980

Through 1980, AID has contributed \$5.1 million of \$11.7 million for a Rural Penetration Roads Project in Sierra Leone administered by CARE. The two phase project began in 1975 and has completed some 417 miles of feeder roads to connect small farms and villages with markets. This project is one component of an Integrated Agricultural Development Project (IADP) funded by the World Bank which would provide farmers with improved crop varieties, fertilizer, extension advice, and better marketing services. The aim of the IADP was to increase the production of export crops such as cacao and oil palm as well as rice to begin to alleviate Sierra Leone's worsening balance of payments situation. The Rural Penetration Roads Project would be an important component of the package.

The impact of the roads have been mixed. Villages served by the roads have received more frequent visits by extension agents and villages have benefited from the easier delivery of many items. CARE-affected villages, for example, use more cement in housing and building construction. Increased income has allowed villagers to purchase basic consumer goods like radios, watches, and bicycles. Finally, the villages have benefited from greater access to health care and services. It was unclear the degree to which agricultural practices had been improved. There were some reports of more commercial activity, but these were not sufficiently widespread to support firm conclusions.

CARE-affected communities have reported a shorter range of fallow periods for rice cultivation. The substitution of export crops such as coffee, cacao, and oil palm for food crops has created rice shortages and greater swamp rice cultivation. There is some indication that these shifts are bringing a loss of soil fertility, increased soil erosion, and increased deforestation. Yet, these were only suspicions of the author and no conclusive evidence could be found.

The report leaves unclear the answers to questions such as the degree to which the rural poor have benefited from the roads project and the extent of local participation in the projects. In the short run, the CARE roads project has had more positive than negative impacts. In the face of serious implementation problems, the project has succeeded in constructing feeder roads to serve the rural people of Sierra Leone. Negative impacts, however, might far outweigh any benefits. The report concludes that additional investigation is needed to determine the overall impact of the project.

CRS-4

d. Morocco: Food Aid and Nutrition Education
AID Project Impact Evaluation Report No. 8, August 1980

Catholic Relief Services received a grant of \$450,000 from AID in 1975 to introduce nutrition education into its 250 social education centers in Morocco which were distributing P.L. 480 Title II food. These funds were used to establish a nutrition institute in Marrakech to train supervisors and teachers for the provincial and local levels. A curriculum was developed combining practical lessons in nutrition, sanitation, personal hygiene, and the treatment of childhood diseases. In February 1980, an AID project evaluation team visited Morocco and found a well-organized and high quality system which had expanded to 300 centers under the Ministry of Social Affairs. The government of Morocco contributed some \$4.7 million in 1979 for the operation of the program. The local cost of the centers and the wages of the teachers were financed by the mothers themselves.

While Morocco has a high per capita GNP relative to most developing countries, the project was designed to benefit the rural poor, particularly mothers and children. Infant mortality was up to 170 per thousand in rural areas and severe malnutrition affected 5 percent of preschool children. Diets proved to be deficient in protein, fats, and several other key nutrients. The government and outside donors had tried to respond, but the existing health system could respond only to 5 to 10 percent of the poor population.

Participation in the program was viewed to be excellent. The team concluded that nutrition education in conjunction with food assistance had a measurable and positive impact on the 450,000 mothers and children participating in the program. Some 50 new centers were created by the Moroccan government in the year previous to the team's visit, and the government considered the program well-organized enough to handle a gradual phasing-in of additional centers and teachers. Food aid posed the major constraint.

The impact among the rural poor was that children in the program were impressively less malnourished because of the program. The program resulted in a 69 percent reduction in moderate and severe malnutrition, equal to or higher than that found in most feeding programs throughout the world. Another significant impact of the program was on women. In the early 1970s when the feeding program was beginning, women did not venture out of their homes, even to pick up food commodities from local centers. In the mid-1970s this pattern began to change. The centers appeared to be a key factor in providing an opportunity for women to share in the benefits of a broader community life. In fact, the team noted that the impact of the centers on the role of women may have been greater than the impact on nutritional practices.

Viewed in light of the "New Directions" strategy, the program reached the rural poor on a relatively wide scale, it encouraged local participation, and it drew women into development programs. The project has shown that nutrition education can be combined with food assistance in creative and cost-effective ways. The team concluded that AID's grant to CRS, which added a nutrition education component to an existing food program, was a decisive factor in bringing about these accomplishments.

CRS-5

e. Senegal: The Sine Saloum Rural Health Care Project
AID Project Impact Evaluation Report No. 9, October 1980

In August 1977, AID signed the project agreement for the Sine Saloum Rural Health Project in Senegal and provided \$3.3 million in grant aid. This money was to finance a U.S. technical assistance team, provide necessary vehicles, equipment, support, training, and supervision, and purchase the initial inventory of medicines for 600 village Health Huts. Each Hut would be staffed by a health worker, a birth assistant, and a sanitary worker. They would be equipped with medicines to treat diseases common to the region. Villages would pay for medicines and the services of the health team in order to cover operating costs. The project was designed to provide better health care and to start to redress the imbalance in the allocation of health resources.

More than 200 Huts have opened in villages in the Nioro and Kaolack Departments. Thousands have visited the Huts and the project has demonstrated that it is possible to deliver basic health services to rural people in Sine Saloum. Upon closer inspection, however, the AID evaluation team found that the project was in serious trouble. In the Nioro Department where Huts had been opened for the longest time (about 9 months), approximately one-third had already closed. Some had closed in Kaolack and it appeared likely that more would close in the near future. All the Huts visited by the team were threatened with bankruptcy because insufficient funds were taken in to replace the initial donated stock of basic medicines. Even though AID is paying most of the costs, adequate support and supervision were not being provided and it was unlikely that the government of Senegal would pick up these costs.

The team was unable to measure the impact of the project on health since the Huts in Nioro had been operating for a maximum of only nine months and no pre-project health status indicators were available. Many villagers, however, were being treated in their own villages rather than at larger Health Posts. The team believed that the project had led to a reduction of costly trips to Health Posts and a source of treatment for health problems that would otherwise have gone untreated.

While the project was well-designed by A.I.D.'s standards, A.I.D. failed to provide firm experienced project management and technical assistance. A.I.D. jumped into a massive 600 unit health project without running a pilot project first. The main impact of the project, the team concluded, may well have been the frustrated expectations of some 800,000 villagers.

CRS-6

f. Tunisia: CARE Water Projects
AID Project Impact Evaluation Report No. 10, October 1980

From 1975 to 1979, four water projects were implemented by CARE at a cost of \$1.9 million (\$881,000 from AID, \$188,000 from Peace Corps, \$86,000 from CARE, and \$771,000 from Tunisian national and local budgets). The purpose of the project was to improve the health and quality of life for rural Tunisians in four provinces by making potable water available, by institutionalizing a maintenance and disinfection system, and by increasing health awareness. Some one to five years after the completion of the project, 325 water sources have been renovated to serve about 100,000 people. Maintenance and disinfection teams had been formed, three of which continued to exist with little or no impact on health awareness.

The CARE water project was designed to meet the "New Directions" strategy of serving the rural poor. The AID evaluation team found that the impact of the project was minimal. It was not possible to assess progress toward achieving the project goal of bettering health conditions. Three out of four project sites were not producing potable water and four out of five visited needed repairs. Water use patterns were not altered nor was there any increase in the water supply. One positive impact was that covered wells have decreased the danger of small children falling in. The project, however, has had no observable impact on the conditions of the rural poor.

The participation of beneficiaries in the project was on the whole very limited. The projects themselves did not seek local participation in designing or implementing water source improvements. In fact, the rural Tunisians interviewed by the team did not believe they even needed cleaner water. Water disinfection methods were often abandoned because they left the water unpalatable. In the somewhat better rain-fed areas, participation was virtually non-existent.

The project attempted to institutionalize maintenance, disinfection, and health components. This focus has been largely ineffective. No disinfection method has yet been found which is acceptable to the rural poor. Indeed, some of the people interviewed said that people would hurry to draw water before disinfection was done. With health care in Tunisia heavily oriented toward curative rather than preventive medicine, efforts by health care teams to educate the rural poor have been unsuccessful. A large problem is that the government of Tunisia requires French to qualify for employment, which effectively excludes most rural women from becoming health educators. Rural Tunisian women do not generally accept urban women because of their different mores and dress.

The water projects were aimed at the rural poor and were implemented as planned, but they have not been successful. The projects were pre-packaged and local participation was minimal. They have not addressed the genuine needs of the rural poor. Any future efforts must establish better working relationships, include a public health strategy, and provide alternative technologies.

g. Central America: Small-Farmer Cropping Systems
AID Project Impact Evaluation Report No. 14, December 1980

In Central America, more than 70 percent of staple foods are produced by small scale systems of agriculture. Few of these small farmers have benefited from agricultural technology designed for larger monocrop producers. There has long been a need to develop improved technology to increase the productive efficiency of these small farmers. A group of agricultural scientists in the Tropical Crops and Soils Department of the Center for Tropical Agricultural Research and Training (CATIE) at Turrialba, Costa Rica began in 1973 to experiment with improvements upon the traditional peasant system.

Following a conference in 1974, AID and CATIE formalized the Small Farmer Cropping Systems Project (SFCS) which was approved for \$1.6 million in grant funds to CATIE to be executed during 1975-79. Its primary purpose was to create a coordinated regional research approach for increasing the productivity and incomes of small farmers in Central America through improved cropping. Multicropping systems research was carried out in the fields of small farmers in Costa Rica, Nicaragua, Honduras, El Salvador, and Guatemala. Within the limited 4 to 5 year period, researchers hoped to get a new cropping process started, but did not propose to complete the adaptation cycle. A ten year lag normally takes place between investments in agricultural research and measurable impact on farmers.

A six person evaluation team visited the SFCS project in February 1980 and determined that the project's impact on CATIE had been profound and lasting. CATIE transformed itself from a traditional research institution to one with a demonstrated capacity for small farm systems research. This new methodology can produce important information about small holder agriculture and can improve multicropping technology for increasing small-farm production. On-farm systems work is already producing the rapid adoption of a new production alternative in Nicaragua. The team found the SFCS project both replicable and sustainable.

Although not designed for large-scale farmer adoption, the project involved more than 75 farmers and had substantial support from some of them. The team saw evidence that some neighbors of CATIE small farmer project participants had spontaneously accepted the alternative farming practices, although systematic information was not developed. Substantial increases in yields for participating farmers were shown in all of the SFCS research settings but Guatemala (which had only operated for a year).

The project had important impacts on CATIE, on institutions in the region, and even on some participating farmers. CATIE was able to develop the potential of the approach and to identify and deal with some of its problems. The team concluded that the SFCS work is replicable and should make a significant contribution to improving levels of living for the rural poor.

h. Honduras Rural Roads: Old Directions and New
AID Project Impact Evaluation Report No. 17, January 1981

Generally regarded as Central America's most impoverished nation, Honduras has the region's lowest ratio of roads to both area and population. In 1965, AID approved a \$5.2 million loan to build 16 all-weather farm-to-market feeder roads totalling 602 kms. In 1974, when the project was completed, four roads had been constructed amounting to 113 kms. An engineering firm designed plans for nine additional roads, some of which have been constructed with funding from other donors. In 1974, a \$12 million agricultural sector loan project was approved. A \$1.75 million farm access roads program component aimed to assist a number of select farm groups by providing roads to connect cooperative fields to the nearest all-weather highway. By the end of 1978, the government of Honduras had completed 53 access roads totalling 304 kms and reaching 61 model cooperatives.

The two sets of roads reflect different periods in the evolution of AID's development strategy. The earlier project assumed a "trickle down" theory of benefit flow. The construction of all-weather feeder roads, many reasoned, would lead to higher incomes for everyone in the vicinity. The second roads scheme sprang from the "New Directions" strategy. Road construction was just one element of an integrated rural development package supporting the Honduran agrarian reform.

Case studies of two of the feeder roads showed that they generally helped to bring additional land into cultivation and to increase the production of cash crops. The income of farmers in areas that have successfully implemented these shifts has risen three to four times over previous subsistence levels. In addition, social services were enhanced. Yet, a third case showed that economic activity in the area had not grown appreciably. AID's conclusion is that the consequences of roads such as these are highly unpredictable.

Evaluation of the farm access roads component of the agrarian reform program revealed that more land had come into production with higher yields from the use of fertilizers and other inputs and assistance that reached the cooperatives. In addition to boosting farm production, the roads have influenced the social side of cooperative life. Although not every cooperative has benefited to the same degree, access to all-weather roads has often meant better housing, more stores with a wider range of merchandise, electricity, and potable water. Better transportation has directly enhanced educational opportunities. Further, local participation on road construction and maintenance provided definite psychological uplift, albeit difficult to measure.

The two rural roads project illustrate a sea change in thinking about development. Since the feeder road project, AID and the government of Honduras have come to view the interrelated nature of the physical infrastructure, agriculture, and regional development. Roads are now more often viewed as one component of regional development projects designed to ensure equity and efficiency. At least in Honduras, roads do not automatically result in higher production and income for small farmers.

1. Philippines: Rural Roads I and II
AID Project Impact Evaluation Report No. 18, March 1981

Two AID loans totalling \$39 million were approved in 1974 and 1978 to construct or improve roads and bridges linking farm areas with nearby towns or markets. The roads would benefit the rural poor by reducing transport costs for farmers and by improving access to social, educational, and recreational activities. At the same time, the engineering capabilities of the provisional governments implementing the program would be enhanced, thus decentralizing some power from the highly centralized government.

Some 69 road projects are completed or are nearing completion. Through calendar year 1979, 794 kms. of roads and 7273 linear meters of bridges have been constructed or improved. These include major feeder roads which provide main access routes to agricultural areas, minor feeder roads serving smaller producer areas and cooperatives, and penetration roads which have involved new construction or improvement of low standard roads or tracks.

The AID evaluation team selected 8 projects and determined that their overall impacts ranged from almost nil to dramatic. The majority of the rural residents interviewed claimed to have benefited from road construction, if only because it provided easier access to places visited for business or leisure purposes. Road construction and improvement almost always increased competition by bringing more buyers into areas served by roads, thus creating higher prices for farm products. In addition, more people were able to market their products directly, and for the first time could do so during the rainy season. Farmers had better access to price information and year round access to markets on all-weather roads meant that higher value perishable fruits and vegetables could be grown.

The beneficiaries of the project included farmers, transport operators, store owners, and other persons involved in commercial activities. It appeared to the team that the commercial sector benefited more than the small farm sector. While most of the beneficiaries were small scale operators, for the most part they could not have been considered poor prior to the initiation of the project. The project has encouraged agricultural growth, but it has done little to promote more equitable growth. The team also concluded that the project design was biased in favor of capital intensive methods. They recommended that community-based, labor-intensive road construction should have been considered.

The project's impact in other areas has been mixed. Due to the Philippine imperative of education, there was no significant increase in school enrollment. The impact on health was better and quicker access to health care for the rural poor. Finally, it is very likely that the engineering and socio-economic research capabilities of the provincial governments were enhanced. Benefits for the project were modest and the team found no evidence that the project significantly altered the distribution of rural income and wealth.

2. PROJECT IMPACT EVALUATION REPORTS AND NEW DIRECTIONS CRITERIA

The following brief summaries examine whether the impact evaluation studies for the nine projects which have been identified as New Directions Projects focused specifically on whether the projects met New Directions criteria.

Colombia: Small Farmer Market Access, project impact evaluation no. 1, directly addresses the New Directions strategy. This highly successful project is evaluated in terms of its impact upon the rural poor. Such factors as the extent of participation, indirect social and economic benefits to the rural poor, and health and nutrition impact are primary considerations of the evaluation. Program, policy, and design requirements all focused on New Directions goals.

Philippine Small Scale Irrigation, project impact evaluation no. 4, discusses the economic, social, and political impact of the project as well as its effects on nutrition, education, and women, but it fails to study the extent to which the rural poor have been served. While the New Directions strategy was clearly in the minds of the authors, the evaluation does not focus on the goals of meeting the basic human needs of the greatest number among the Filipino poor.

Effectiveness and Impact of the CARE/Sierra Leone Rural Penetration Roads Project, project impact evaluation no. 7, does not relate the roads program to New Directions goals. The report is inconclusive in its assessment of overall impact and fails to focus its analysis on basic human needs directives. Impact on the rural poor, the level of local participation, health and social services impact, and institutional development are largely neglected in this study of project design and implementation.

Morocco: Food Aid and Nutrition Education, project impact evaluation no. 8, focuses more on the importance of nutrition education than on the project's impact among the rural poor. Clearly, the rural poor and women in particular were served by the project and there was a large degree of local participation and institutional growth. Yet, the report prefers to document the role of nutrition education on overall nutritional status while side-stepping New Directions goals such as the extent to which the project served the rural poor.

Senegal: The Sine Saloum Rural Health Care Project, project impact evaluation no. 9, is a frank examination of poor project implementation. Impact upon the rural poor was so minimal and local participation became so insignificant that the report can suggest only a negative impact. The report studies why the project has failed and does not attempt to place it into the "New Directions" framework.

CRS-11

Tunisia: CARE Water Projects, project impact evaluation no. 10, clearly addresses New Directions goals. While the project was largely unsuccessful, the evaluation team presents a detailed discussion of the impact of the project on the rural poor and of participation in different geographic regions. The report balances an evaluation of project design and implementation and a study of the extent to which the project meets New Directions criteria.

Central America: Small-Farmer Cropping Systems, project impact evaluation no. 14, fails to discuss the project in terms of the New Directions approach to development. The research nature of the project is such that any impact on the poor will not be observable for several years. Nevertheless, the authors neglect questions of how and to what degree the project serves or might serve the needs of the rural poor in Central America. The New Directions framework is largely abandoned to study the impact of the project on CATIE, a research and training institution.

Honduras Rural Roads: Old Directions and New, project impact evaluation no. 17, is a comparative study of two sets of roads, one constructed in the early 1970s assuming a "trickle down" theory of benefit flow and the other constructed under New Directions. The study highlights the New Directions strategy by juxtaposing the two projects. Impact upon the rural poor and the effects of local participation are discussed in detail. The study also places the project in the larger context of the integrated rural development package for Honduras which further illustrates project impact on the rural poor.

Philippines: Rural Roads I and II, project impact evaluation no. 18, focuses clearly on New Directions policies. Not merely growth but equitable growth is a central theme of the study. Economic impact, social services and infrastructure, and institutional impact are evaluation criteria placing the project squarely in the New Directions framework.

Mr. BROOKS. This will conclude our hearing. I want to attend Mr. Bowsher's swearing in in the Senate.

You seem to have a very good grasp of the operation and an objective view of it. That can do a lot of good. With proper management we can continue this kind of program.

Mr. McPHERSON. Thank you.

Mr. BROOKS. All the testimony we have gathered indicates you are going to have a good many problems. We will stay with you as you perfect the title to this house and as you make payments on it.

Based on what we have heard, it is pretty clear that you have some problems in project development, implementation, and the unspent funds. If you cannot spend them well, then turn them back. If you can spend them well, get it done.

The lack of audit and review is one of the most critical problems, I think, that you face. We cannot allow that to continue. Only with a good audit and review can you make valid evaluations of what we ought to do in a given country. If you do not know, how do you make a judgment.

A large portion of those funds was spent in areas which are highly vulnerable to waste and abuse.

The AID Administrator has today assured us that he plans to take constructive steps to address many of these concerns. The subcommittee will continue to closely monitor AID's work over there.

In particular, we are concerned that you strengthen that audit capacity. We are willing to assist you in any way we can in improving the management of our overseas assistance programs.

The hearing is recessed, subject to the call of the Chair.

[Whereupon, at 10:50 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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