Downsizing in a Laboratory: Federal Staff Cuts at USAID During the Government Reinvention Movement

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Abstract

This study examines the process of staff reductions at the U.S Agency for International Development (USAID) during the National Performance Review's (NPR) reinvention effort. By reviewing published articles, examining USAID and congressional reports and interviewing current and former agency staff, we attempt to distinguish the purposeful reform efforts from ongoing political and budgetary pressures. We also analyze the scope and methods of USAID's workforce reductions and try to determine the impact of staff cuts on other agency goals. We argue that while reinvention principles influenced the process of personnel reductions at USAID, budget cuts had the largest effect on who was cut and how they were cut. Although the agency has not implemented all of its reforms, it has maneuvered effectively through the political and budgetary hazards it faced over the last several years.

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INTRODUCTION[1]

In September 1993, the National Performance Review (NPR), later renamed the National Partnership for Reforming Government (NPRG), submitted to President Clinton its initial report detailing various steps to "reinvent government." The report outlined NPR's recommendations for creating a "government that works better and costs less." In its 1995 progress report, the NPR explained that cutting government costs and improving its management hinged on four interrelated activities: "*Downsizing* (reducing the size and number of agencies, thin programs, and staff); *streamlining* (simplifying the procedures involved); *restructuring* (reforming agencies structurally to better serve the missions); [and] *privatizing* (spinning off functions to the private sector that are better accomplished there)."[2] According to the NPR, the "cumulative effect" of these four activities has been a 7.6 percent reduction in the size of the government in two years, "nearly two-thirds of the way toward the goal in one-third of the time."[3] Referring specifically to the Clinton Administration's goal to save $108 billion and cut 252,000 administrative jobs in five years (later raised to 272,000 jobs), the report stated: "both tasks are ahead of schedule; savings locked into place total $58 billion (53 percent of goal), and job reductions total more than 160,000 (60 percent of goal)."[4] As of March 3, 1998, the NPRG's fifth anniversary, reformers reported a total savings of $137 billion, and overall reductions of 309,000 federal workers cut from 13 out of 14 federal departments and agencies (the Justice Department being the only exception).[5] NPR calculated these figures "by multiplying the total number of reductions by the average cost to the government for a federal employee for the year(s) following departure from

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[2] *Common Sense Government: Works Better & Costs Less*, Third Report of the National Performance Review (1995), p.75.

[3] ibid.

[4] ibid., p. 3.

[5] Cited in "Accomplishments," National Partnership for Reinventing Government Web Page (www.npr.gov/accompli/index.html).

federal service." Staff reduction statistics were based "on the Administration's baseline of 2,155,200 FTEs [full time equivalents] as of January 20, 1993."[6]

General statistics about total staff cuts and budget savings, however, may mask important variations among agencies and departments. It is important to note, for example, that workforce reductions at the Department of Defense (DOD) accounted for 64 percent of total government cuts between fiscal years 1993 and 1996. During this period DOD's civilian workforce dropped 16 percent compared to a 7 percent reduction in the non-Defense workforce.[7] Thus, much of NPR's downsizing may be due to the so-called "peace dividend." Among non-Defense agencies there were significant disparities in the proportion of staff cuts. For example, the Office of Personnel Management and General Services Administration were cut 38 and 23 percent respectively, while NASA and the Department of Agriculture were cut 15 and 13 percent respectively.[8]

Government staffing totals also tell us nothing about how agencies decided who was cut, and what the effects of those cuts will be on other NPR goals. NPR portrayed the cuts as one part of an integrated plan to achieve leaner and more effective government. Yet critics, including Timothy Bowling of the General Accounting Office (GAO), suggest that many agencies enacted across-the-board cuts without meaningful workforce management plans in place:

> Agencies are meeting their downsizing targets. However, there's little evidence that the reductions were carried out with an effective plan to reshape the workforce to better fit a reinvented government. What we got were across-the-board reductions rather than carefully planned cuts aimed at positions no longer essential to agencies' core missions.[9]

Moreover, in August 1996, GAO reported that 12 out of the 24 agencies surveyed stated that downsizing "hindered their ability to carry out their missions."[10] Clearly, other

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[6] "Common Sense Government," p. 149.
[7] Robert Goldenkoff, "Report Card on Downsizing," *GovExec.com*, (February 1997). (www.govexec.com/archdoc/0297/mgmt.htm)
[8] ibid.
[9] ibid.
[10] "Phantom Management Cuts," *GovExec.com*, (October, 1996). (www.govexec.com/reinvent/downsize/1096exe2.htm)

factors besides NPR and agency goals, including political calculation and budget constraints, influenced how the cuts in various departments and agencies were made.

It is not easy to disentangle the influences of purposeful reform efforts versus ongoing political and budgetary pressures during the reinvention era. Several factors were operating simultaneously within departments and agencies from the outset of their NPR activities. The U.S. Agency for International Development (USAID) presents one case of an agency that attempted to implement reinvention reforms during a period of budgetary reductions. Within USAID, the reinvention effort served as a catalyst for personnel and management reforms, although political and budgetary pressures determined many of the actual changes. In his introduction to a 1996 agency progress report, USAID Administrator Brian Atwood wrote that "at a time of dramatic change abroad and within our own agency, budget cuts have resulted in a reduction-in-force beyond our planned rightsizing. We have lost some valuable people whose experience and skills in development work will be greatly missed."[11]

In this study we examine the process of staff and position reductions at USAID during the period of NPR's reinvention effort. We attempt to distinguish the purposeful reform efforts from ongoing political and budgetary pressures, and analyze the impact of USAID's workforce reductions and management reforms on other USAID goals. Several questions are addressed: What processes determined who would be cut, and who actually was cut? What was the relative proportion of cuts among different personnel categories across the agency? How did the NPR and USAID reformers link staff cuts to other changes including management reforms and mission closings? Finally, why did USAID successfully implement some reform initiatives, while other initiatives failed?

In reviewing published articles, examining USAID and congressional reports and interviewing USAID staff, we find that some staff cuts at USAID were driven by NPR principles, but operating budget reductions interfered with the agency's reform efforts. The agency was forced to implement a reduction-in-force (RIF) which was not amenable to a coherent workforce reduction strategy. Due to the RIF, other USAID management reforms were delayed or hampered.

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[11] *Toward the New USAID II: Three Years of Reform Progress*, U.S. Agency for International Development: Washington D.C. (1996), p. v.

I. CHANGES IN USAID'S POLITICAL SUPPORT

Created by the Foreign Assistance Act of 1961, USAID was established to administer U.S development assistance programs abroad. The Cold War provided USAID with the broad mission of resisting communism through the strengthening of non-communist regimes. This gave USAID a *raison d'etre* in the eyes of Congress and the presidential administrations that appropriated the agency's annual budgets. The agency, however, was expanded several times in the 30 years following its creation to include many additional responsibilities. This expansion was not guided by an integrated plan, but was the product of the separate interests and agendas of successive administrations, USAID administrators and Congress members.

By the early 1990s, political support for USAID waned. The Cold War's end effectively eliminated USAID's most overarching justification for budgetary support. Because it had accumulated nearly 40 separate responsibilities in international development since its creation, the agency lacked a clearly defined mission.[12] In addition, the agency's personnel structure was severely criticized as inefficient and detrimental to America's foreign assistance program. The President's Commission on the Management of USAID Programs (the Ferris Commission) faulted USAID's staff development and evaluation systems for jeopardizing the agency's goals. The Ferris Commission also linked USAID's increasing reliance on contractors to its apparent inability to deliver services and maintain project focus. Citing these and other problems, the commission recommended that USAID be merged within the State Department and administered by a new undersecretary of foreign assistance.[13]

In 1993, Brian Atwood took over an agency with a growing reputation for poor management and program implementation. During his March, 1993 nomination hearings, Atwood declared that USAID would become an agency-wide "reinvention laboratory." In doing so, Atwood hitched the agency's immediate budgetary need for radical change to the Clinton Administration's new commitment to reinvent

[12] *Creating a Government That Works Better and Costs Less: Agency for International Development.* Accompanying Report of the National Performance Review. (September 1993), p. 5-6.
[13] The President's Commission on the Management of AID Programs (the Ferris Commission), *Action Plan-Working Draft #1*. Washington, D.C. (March 2, 1992).

government.[14] Congress responded to Atwood's declaration by linking the appropriation for USAID's FY 1994 operating budget (OB) to the agency's enactment of NPR reforms.[15] Specifically, the law stated that appropriations would not be authorized after March 31, 1994 unless "the Administration has acted to implement those recommendations of the Report of the National Performance Review which can be accomplished without legislation and has submitted the necessary package of proposed legislation to accomplish the remaining recommendations."[16]

With Atwood, Congress, and the Clinton Administration in agreement on the need for downsizing and management streamlining, the agency launched a series of reforms targeting programs, procurement, and financial and human resource management. Testifying before Congress in March 1995, Atwood listed numerous actions taken by USAID and NPR staff. These actions included the designation of 21 missions for closure, the reorganization of the Washington Headquarters resulting in the elimination of 90 units, and projections for 585 position cuts which would collectively produce $15 million in annual savings by fiscal 1997.[17] Atwood publicly tied these changes to a new set of strategic objectives driven by post-Cold War conditions. According to Atwood, "[USAID's] new post-Cold War foreign assistance program isn't about charity. It is about U.S. self-interest."[18] USAID programs should accomplish the following: strengthen the U.S. economy by creating new trading partners and private-sector jobs; emphasize crisis prevention to deal with instability; protect the United States from global threats like population growth or environmental degradation; promote the spread of democracy; and maintain U.S. leadership in international affairs.

Despite Atwood's public commitment to NPR goals, and his apparent willingness to back up reform rhetoric with action, calls for the agency's closure continued. In January 1995, Secretary of State Warren Christopher, citing the need to "eliminate

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[14] Beryl Radin, "Varieties of Reinvention: Six NPR 'Success Stories,'" *Inside the Reinvention Machine*, Donald F. Kettl and John J. Diiulio, Jr., (eds.). (Washington, D.C.: The Brookings Institution) 1995: p. 115.

[15] Public Law 103-87. September 30, 1993.

[16] ibid

[17] Testimony before the Senate Foreign Relations Subcommittee on International Operations. March 30, 1995.

[18] ibid.

duplication and overlap by competing foreign policy bureaucracies,"[19] proposed to consolidate the functional responsibilities of USAID, the U.S. Information Agency (USIA) and the Arms Control and Disarmament Agency (ACDA) within the Department of State. Christopher's proposal touched off three weeks of "high decibel infighting" as the directors of the three agencies struggled to save their agencies.[20] Atwood, who threatened to resign if the plan proceeded, led a "public relations blitz" of editorials and faxes in support of USAID's foreign aid programs. Even though Christopher's plan enjoyed significant support in Congress, it ultimately failed in relation to USAID. According to one senior official, Gore's team "decided the amount of money a merger could save was not worth…the 'grief' it would provoke."[21] Instead, USAID agreed to further cuts and to close 6 more overseas posts beyond the 21 already announced.

In October 1998, USIA and UCDA were eliminated as separate agencies and their functions absorbed within the Department of State. USAID remains a separate agency in terms of organization (e.g., its personnel system and budget appropriations remain distinct from State's), but the USAID Administrator reports to the Secretary of State.

Although USAID remains distinct from the State Department, in recent years it has had to carry out its mission under stagnated or shrinking operating budgets. Table One (see Appendix) illustrates that during the reform period (after 1993), USAID's operating budgets did not keep pace with the rate of inflation, and in some years were substantially reduced. The Agency's FY 1996 operating budget, for example, was reduced by 10 percent of the previous fiscal year's level.

The reductions in operating budgets severely impacted how the agency implemented its reforms. The next section discusses the personnel management system at USAID to facilitate a better understanding of the changes made at the agency.

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[19] Quoted in John Goshko, "'Super State Department' May Absorb Other Agencies," *Washington Post*, January 11, 1995: A15.
[20] "Entrenched Constituencies help Kill Merger," *Washington Post*, February 3, 1995: A17.
[21] ibid.

II. USAID'S PERSONNEL MANAGEMENT SYSTEM

Description of the System

USAID uses three distinct personnel systems to manage its direct-hire employees: the US Foreign Service (USFS, the personnel are also referred to as Foreign Service Officers, or FSOs); the Civil Service General Schedule (GS); and the Foreign Service National Direct Hire (FSNDH) system.[22] Beginning in 1980, all Washington positions were designated either GS or USFS, with USFS staff holding most senior management positions in Washington and overseas. The GS positions, all based in Washington, are used for support staff and some senior Washington management positions.

The "regular" Foreign Service system uses "employee grade" designations ranging from USFS9 through USFS1 (USFS1 being the highest and USFS9 being the lowest). When a regular Foreign Service Officer (FSO) reaches USFS1, he/she has the option of opening a three-year "window" to apply to the Senior Foreign Service. If an FSO is not selected for the Senior Foreign Service within three years, he/she is forced to retire. The term for a FSO expending all the time in his/her window, and consequently being forced to retire, is "Time in Class out," or "TIC out."

Once a year, USAID selects new Senior FSOs from the group of USFS1s who have opened their windows. The first position an FSO occupies when promoted to the Senior Foreign Service is "Officer Counselor" (OC), followed by "Minister Counselor" (MC) and then "Career Minister" (CM). Upon entering the Senior Foreign Service, an FSO has 10 years to make CM or he/she will TIC out.

The GS system uses the grades GS1-GS18. Unlike the USFS system, in the GS system GS1 is the lowest grade and GS18 is the highest grade. GS18 employees may apply for, and be appointed to the Senior Executive Service (GS positions, "ES00" and "EX") when positions become available. Also unlike the USFS system, the GS system

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[22] The information in this section is derived from interviews with AID staff, and "Creating a Government that Works Better and Costs Less: Accompanying Report of the National Performance Review," p. 19-20.

does not review employees for annual promotions, and GS personnel cannot be forced to TIC out.

Beyond organizing GS and USFS personnel into employee grades, USAID also organizes employees by "position category." For example, a GS employee who is grade GS5 may occupy the position category of "administrative assistant." In the USFS, an employee who is a USFS1 may have the position category of "project manager." The employee grades and position categories are further discussed in Section III of this study.

Foreign Service National Direct Hire (FSNDH) employees are non-U.S. citizens who work in USAID missions overseas. Generally, FSNDH personnel perform the same types of support duties in overseas USAID missions that GS personnel perform in Washington. USAID also utilizes Personal Service Contractors (both FSNPSCs and USPSCs) who perform a wide range of duties, primarily overseas, including project implementation, evaluation, and monitoring. The major difference between PSCs and FSNDHs is that USAID must renew PSCs' employment contracts annually, while FSNDHs are "career employees" and receive full benefits. For these reasons, FSNDHs are more expensive than PSCs. Among USAID's Washington staff, USFS and GS personnel have roughly similar costs per employee. However, both USFS and GS personnel are more expensive than FSNDHs and PSCs. When USFS employees are posted abroad, the agency pays for additional expenses such as housing. As a result, overseas USFS personnel are USAID's most expensive employees; per employee they cost almost twice as much as USFS personnel stationed in Washington.

Problems with the System

Workforce management at USAID has been a regular source of complaint among employees. The procedures for hiring, evaluation, promotions, and training are considered "complex, costly, and unsuited to accomplishing the mission of the agency."[23] In particular, the USFS personnel evaluation system is time-consuming and expensive. Also, in the past the USFS system was criticized as top-heavy because of the practice of limited career extensions (LCEs). The use of LCEs stems from the fact that the USFS is partially an up-or-out system, requiring more senior employees who remain in one class

[23] "Works Better: Accompanying Report," p. 19.

too long to retire. However, in the past LCEs were routinely granted which allowed many senior employees to stay well beyond their time-in-class. GS employees, in contrast, can enter a position at any level through open competition, but can advance only when a position in the next grade opens. Moreover, USFS promotions are based on annual performance reviews while GS advancement is based on several measures including position openings, specialist skills, breadth of responsibility, and number of employees supervised. Tensions also have developed when the two systems coexist in the same unit. GS employees, for example, often find it more difficult to secure promotions for work similar to the work done by USFS employees. Additionally, more positions may be reserved for USFS than GS staff. The fact that GS and USFS employees often work closely together, but are evaluated and promoted through separate processes, has also contributed to morale problems.

USAID's budget system further compounds its management difficulties. USFS and GS positions are funded out of operating budgets, while PSCs are paid from both operating budgets and program funds. This arrangement has been cited as one factor causing a shift of the USFS project officers' duties away from hands-on project management (e.g., coordinating project implementation) towards process management (e.g., preparing proposals, managing contracts).[24] Because the work of PSCs can be charged to program funds, the agency increasingly relies on them to carry out the work of former direct-hire employees. In a 1993 report on USAID's reinvention efforts, the NPR explained that FTE ceilings forced the agency to "shed, through attrition, much of its program implementation expertise, with a resultant lack of continuity in program administration." Agency staff cited several costs and benefits of increased reliance on PSCs. On the positive side, PSCs can provide "flexible alternatives" to direct-hire employees.[25] On the downside, increased reliance on PSCs may make it more difficult for direct-hires to remain engaged in project management. The NPR explained that "in a downward spiral, USAID managers are increasingly preoccupied with contract management and lose touch with the reality of fieldwork, further diminishing their

[24] "Accompanying Report of the NPR," p.27.
[25] ibid., p.28.

effectiveness in overseeing the performance of contractors."[26] Over time this increased use of PSCs creates a cumulative inability to carry out agency goals.

Have workforce reductions during the reinvention movement increased the agency's reliance on PSCs for project implementation? Have personnel cuts changed the proportion of USFSs, GSs, and FSNDHs working in Washington and overseas? Were the personnel changes driven more by NPR goals or political and budgetary pressures? These are the questions to which we now turn.

III. STAFF CUTS AND PERSONNEL REFORMS DURING THE NPR

During the reinvention period, USAID reduced its FTE positions (GS and USFS) from 3,406 in 1992 to 2,346 in 1998. Although this reduction represented a very small percentage of NPR's government-wide goal of 272,000, it constituted a 31 percent reduction in USAID's full time employees.[27] This reduction began as part of the agency's initial plan to streamline its operations following Atwood's appointment as USAID Administrator. The reductions were accelerated following the 10 percent decrease in USAID's operating budget for FY 1996.

The Initial Reform Effort

With the impending closure of 21 overseas missions (later raised to 27), the USAID Management Bureau sought to trim the number of USFS personnel by tightening its policy on the granting of limited career extensions (LCEs). In 1981, Congress passed legislation which allowed USAID to grant LCEs to USFS personnel who otherwise would TIC out. Since that time, USAID granted LCEs regularly, in some years up to 60 were granted. Upon taking over the agency, Atwood greatly restricted the liberal granting of LCEs. In the first two years of the new policy, less than 10 LCEs were approved. The LCE policy change contributed to a 16 percent staff reduction between 1992 and 1994 (See Table One).

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[26] ibid.

[27] Unless otherwise noted, data in this section were collected from USAID's quarterly *Worldwide Staffing Pattern Reports* (June 1994-December 1999). Supporting information about personnel changes and the reduction-in-force was derived from our interviews with present and former USAID staff.

Beyond closing missions and restricting LCEs, the agency also attempted a major reform of its management system. The cornerstone of the New Management System, or "NMS," was the development of a global computerized network that would connect the 93 overseas missions to each other and to Washington. According to Atwood and Larry E. Byrne, the Administrator's chief management deputy, the system would bring "in one integrated, computerized system all information about the agency's operations, from its budgets and personnel to its multitude of worldwide projects, loans, fund allocations and outlays."[28] In theory, the network would also permit future GS position cuts by allowing the remaining staff to perform tasks such as accounting and payroll more efficiently. As a result, the NMS was expected to help USAID conserve operating funds in later years.

In spite of these high expectations for the NMS, the system was a major failure that produced a "major morale crisis from which USAID is still struggling to recover two years later."[29] Critics have faulted Atwood and Byrne for adopting a high-risk strategy that had little chance of success. Instead of hiring an architect to design and test an overall system first, USAID officials were instructed to draw up their "rough and ever-changing" plans designed around four subsystems built in isolation from each other. Despite numerous warnings of failure from the agency's inspector general and other staff, the system was unveiled in October 1996, resulting in an immediate disaster. For example, just signing on could take up to 45 minutes, while typing one letter of the alphabet could take 20 minutes. It wasn't until April 1997 that Atwood overruled Byrne and brought in outside consultants to fix the design problems. Shortly thereafter, Byrne left the agency saying that even with the problems the system helped the agency cancel roughly $315 million in failed projects in Africa—three times the amount it took to develop the system.[30]

The FY '96 Budget Cuts and RIF

The mission closings, changes in LCE policy, and development of the NMS were all underway when USAID's operating budget for FY 1996 was reduced by 10 percent of

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[28] David Ottaway, "AID Struggles to Recover From '96 Computer Fiasco," *The Washington Post* November 3, 1998: A15.
[29] ibid.
[30] ibid.

the previous year's budget. To meet this new budget constraint, the Management Bureau at USAID was forced to cut additional FTEs through an agency-wide reduction-in-force (RIF).

Several steps determined which positions were eventually cut at USAID. First, the Management Bureau designated specific position categories, such as "accounting clerk," for reduction. Next, it targeted position categories in each employee grade such as GS5 or USFS1. Since the computerized NMS was expected to go on-line within a year, GS position categories such as "accounting clerk," "secretary" and "administrative assistant" were heavily targeted for the RIF. These position categories were concentrated in the employee grades GS10 or below, causing those grades to be heavily targeted. For example, the Management Bureau could place an FTE ceiling of 15 on the position category of "accounting clerk" in the grade GS7. If prior to the RIF there were 20 accounting clerks in the GS7 grade, five of them would have to be RIFed. Chart One in the appendix illustrates how the RIF targeted the grades GS10 and below. Approximately 20 percent of the personnel in each grade GS5-GS10 were cut, while reductions in GS11 and above received a relatively more modest cut of around 10 percent. Further, grades GS1, GS2, and GS4 were all reduced by 60 percent or more.

Within the USFS, "program officer" and "project manager" position categories were heavily targeted for reductions. Personnel in these positions typically performed project backstopping or oversight responsibilities and usually included many generalists with project implementation expertise rather than technical expertise. Previously, the norm was to hire generalists as USFS personnel and contract out technical work in areas such as finance or health and environmental science. The process USAID adopted targeted these USFS generalists.

Regular USFS personnel were concentrated in the grades USFS2 and USFS1.[31] Chart Two in the appendix illustrates the concentration of regular USFS personnel at the end of the third quarter, FY 1996, just prior to the RIF. As the chart demonstrates, before the RIF the USFS1 and USFS2 grades accounted for over 60 percent of the agency's USFS personnel. Hence, in order for the RIF to be substantial, the agency needed to

[31] Remember that in the "regular" Foreign Service the USFS1 is the highest ranking, not the lowest as in the Civil Service GS1.

reduce personnel in those grades. This fact, along with the relatively high number of generalists within the USFS1 grade, made USFS1 a major target of the RIF.

Chart Three shows that the three classes receiving the largest cuts were USFS1, USFS5, and Career Ministers. The reduction in USFS1s from 386 to 313 constituted a 19 percent drop. Although the 29 percent cut in USFS5s was a higher percentage than the USFS1's percentage, USFS5 personnel only dropped from 34 to 24. Similarly, the 20 percent reduction in Career Ministers represented a reduction from only 10 to 8.

Although position categories within employee grades were targeted by the RIF, seniority (years in government service) could prevent individuals from being RIFed at the expense of others in their class. For example, if a USFS1 Project Manager was initially targeted, he could exercise his "reemployment rights" against other USFS1 project managers with less seniority. If another USFS1 Project Manager with less seniority was identified, the original USFS1 Project Manager could take that employee's position. The employee with less seniority would then be RIFed unless another USFS1 Project Manager with even less seniority was identified. Because USAID's original authorizing legislation defined it as a "temporary agency," RIFed individuals could not exercise their reemployment rights against personnel in other agencies or departments. Once RIFed, USAID employees could collect their accumulated retirement, but they were not entitled to additional compensation.

IV. EVALUATING THE EFFECTS OF THE FTE REDUCTIONS

Was USAID's mission severely hampered by the RIF? Obviously, the general scope of agency activities was reduced, particularly in countries where missions were closed. In this section we look more closely at whether the RIF changed the concentration of the agency's different employee systems, creating a more Washington driven agency and/or one more reliant on PSCs. Additionally, this section investigates whether the RIF had the effect of terminating "rising star" USFS employees, those who rose quickly into high USFS grades, because they had less "time in government service" compared to others in their grade.

Continuity of GS and USFS Ratios

Due to the RIF's focus on lower GS grades and higher USFS1s, one might expect that these grades were severely reduced relative to other grades. This was not the case, however. Chart Four in the appendix shows the percentage change in each USFS grade as a proportion of the total number of USFS employees. For example, in June 1996 USFS1s constituted 29.74 percent of USFS personnel. After the RIF, in December 1996, USFS1s made up 27.22 percent of USAID's total USFS personnel—a change of only 2.52 percent. This change was the largest compared to other USFS grades as only two of the thirteen grades exceeded a change beyond 1 percent. The absence of more substantial change demonstrates that although USAID reduced about 13 percent of its personnel during the RIF period of FY '96, the agency generally maintained its employee grade ratios.

This pattern of small reductions in each grade's proportion of the total is also found in the civil service cuts. Chart Five illustrates that although most grades below GS10 decreased as a proportion of the agency's total GS staff, none of the grades' proportions (compared to the GS total) decreased by more than 1.5 percent.

A loss of the best and the brightest?

Our interviews revealed a perception that the RIF deprived the agency of its "rising star" employees. We repeatedly heard that USFS personnel who quickly rose through the ranks were RIFed because they had less accumulated "years in government service" than others in their grade. If this perceived outcome was accurate, we would expect the average employee age in the top USFS classes to have increased substantially, as older employees with more years in government service remained and "rising stars" with less "years in government service" were RIFed. The data in Table Two, however, demonstrate that while the average age of USFS2s increased by a modest one year after the RIF, the average age of the USFS1 class, which had the most USFS personnel cut, did not change at all. Also, in the Senior Foreign Service the average age of OCs and MCs increased by only a year. Given the lack of change among USFS1's average age, and taking into account the six months that elapsed during the RIF, the one year increase in the average age of the three classes does not support the view that the RIF eviscerated USAID's "fast track" employees.

Changes in Ratios of Employee Systems

The staff changes at USAID did result in a slight reduction of the agency's field presence, as depicted by Table Three. In September 1994, for every 1 GS position in Washington there were .96 Foreign Service Officers worldwide--a ratio of almost 1:1. By September of 1998, this ratio decreased to 1: .91. However, it is important to remember that Foreign Service officers are posted in both Washington and overseas. Looking at just the 1994 Foreign Service personnel, there were .51 Foreign Service Officers posted in Washington for each 1 posted overseas—a ratio of .51 : 1. In 1998, this ratio increased to .59: 1. In other words, the proportion of USFSs in Washington increased relative to USFSs posted abroad. This suggests two related causes. First, as agreed upon by Congress and USAID, many overseas missions were closing during this period, and mission personnel were returning to Washington. Second, because USAID needed to realize cost savings, it had an incentive to reduce overseas staff. This is because, on average, it costs twice as much to station a USFS employee overseas than it does to post one in Washington.

The concern that agency staff reforms created a greater reliance on Personal Service Contractors (PSCs) over USFS personnel also is not confirmed by our data. All the data we reviewed demonstrate that for several years there has been a steady ratio of .5 FTEs for every 1 PSC. In fact, between 1994 and 1998 the ratio of FTEs to contractors slightly increased from .51:1 to .55:1. This slight increase suggests that eight years after the Ferris Commission first identified the problem of an "increasing reliance on PSCs," it does not appear that the problem has been exacerbated by any reforms or staff reductions at USAID. On the contrary, the problem has been slightly corrected.

USAID did severely reduce the number of FSNDHs employed overseas. As previously discussed, FSNDHs are more expensive per employee than contractors. Between 1994 and 1998, FSNDH personnel were reduced from 644 to 264, or from 9.5 percent of USAID's overseas staff to 5.2 percent (see Table Four). Some Foreign Service National Direct Hires (FSNDHs) were hired back as contractors, which allowed the agency to save money while retaining employees with USAID experience. However, in countries where missions closed, most FSNDHs were not reemployed by the agency. Table Four also shows that the percentage of USFSs assigned overseas barely changed as a percentage of the overseas staff, while Foreign Service National Personal Service Contractors (FSNPSCs) increased from 69.86 percent to 73.29 percent. Thus, with regard to its overseas staff, the agency confronted the closure of missions and staff cutbacks by retaining roughly the same percentage of USFSs and slightly increasing the number of "inexpensive" FSNPSCs. The more expensive FSNDHs were reduced.

CONCLUSION

Between 1994 and 1998 USAID reduced its total personnel (USFS, GS, USPSC, FSNDH and FSNPSC) from 8,968 to 6,929—a reduction of 23 percent. This reduction was accompanied by several other reform efforts that are summarized below. The cuts made to FTEs tended to be "across the board." No single employee class changed by more than 2.5 percent of its total percent of agency personnel before the reforms. Given this fact, and the agency's ability to rehire many terminated direct hires as contractors at cheaper cost, USAID seems to have maneuvered effectively through the budget and political hazards while implementing some of its major NPR goals.

There is little dispute that how the agency made its cuts adversely affected its ability to pursue other goals. While serving as a process to make across-the-board cuts, the RIF often required staff to take positions for which they were not trained. And with the termination of many experienced personnel, there were less instances of position overlap and fewer opportunities for employer training on the job. This situation has reportedly contributed to declining morale within the agency.

Such morale problems were exacerbated with the failure of the agency's $100 million computerized management network. In many instances, travel and transfer orders are more difficult to process now than before. And several of our interview subjects claim the system has increased the time needed for routine paperwork, taking them away from project management and increasing employee frustration.

Overall, USAID's most salient reforms are the ones the agency had to make because of political and budgetary pressures. Changes such as reducing the use of LCEs, closing 27 overseas missions or cutting staff by more than 23 percent would probably not have occurred without the budget reductions and threats to merge USAID completely into the State Department. Other reforms that are not directly linked to the agency's budget, such as merging the GS and USFS personnel systems, or rewarding programs that achieve their development goals and terminating those that do not, have yet to occur. It appears that USAID simply lacks the incentive to implement these other reforms. The agency's one major reform effort that was not directly tied to reductions in operating budgets, the NMS, is widely perceived as a failure. Further, even if the personnel system was merged and programs were rewarded for achieving their goals, there is no evidence this would change the agency's political support. USAID could implement these reforms and still face future operating budget reductions. In the final evaluation, reforms linked to budget appropriations are the ones most likely to be implemented.

Status of Reforms in 1998		
Initiative	Status	Comment
Closure of 12 overseas Missions	27 overseas missions targeted are either closed or slated for closure in the near future.	The congressionally mandated closures pressured the agency into prioritizing its mission-based activities and to focus on countries where missions could be most effective. The closures also force a reform of the LCE policy.
Reductions in Federal Employees.	A 32% reduction in FTEs since 1992.	USAID attempted to target cuts to fit with other reforms. However, they were not just a function of NPR's targeted reductions, they were also driven by USAID's decreasing operating budget. These budget cuts also caused reductions in FSNDHs and PSCs (which are not counted as "Federal Employees"). Overall, the agency cut its entire staff (federal and non-federal) by 23%.
New Management System	Expended $100 Million to "modernize" its management system into an integrated global network.	The agency attempted to switch from its old labor-intensive system into a functional program system. The computerized system did not work, causing delays in all budget, personnel and program operations. Today, only parts of the NMS are operating. Employees claim the NMS has increased rather than decreased the time needed to perform administrative tasks.
Strategic Objective Implementation Review (SOIR): Linking funding for projects and programs to their ability to obtain strategic objectives.	Has partially occurred. Once a year USAID Missions and programs must report to the Management Bureau on whether projects accomplished their previous year's objectives. They must show that their "inputs" affected their development goals.	USAID has used annual project reviews for many years. The SOIR is different because it links the accomplishment of objectives to funding. However, a consistent method of evaluation has not been developed. It is not clear whether under performing programs suffer budget reductions.
Streamlining the Personnel system, including the merging of GS and USFS systems.	Has not occurred.	GS and USFS positions have not been combined, and the personnel evaluation system has not been changed. The RIF process did not use personnel evaluations in determining whether employees would be RIFed.

Appendix Page 1
Tables 1-2

Table One						
FY	Operating Budget	Percentage OB Change	Previous Year's	Annual OB Change	Full Time Equivalents	Percentage FTE
1991	$435,000	*	*	*	*	*
1992	$481,300	10.64%	4.2%	6.44%	3406	*
1993	$512,000	6.38%	3.0%	3.38%	**	*
1994	$501,760	-2.00%	3.0%	-5.00%	2831	-16.88%***
1995	$517,500	3.14%	2.6%	0.54%	2981	5.30%
1996	$465,750	-10.00%	2.8%	-12.80%	2591	-13.08%
1997	$470,750	1.07%	3.0%	-1.93%	2425	-6.41%
1998	$473,000	0.48%	2.3%	-1.82%	2346	-3.26%

*Cells' values require data series from years beyond the scope of this table.

**USAID was unable to provide FTE employment levels for 1993.

***Based upon the two year change between 1992 and 1994 because data for 1993 was unavailable.

Table Two: Average Age for USFS Employee Grades Before and After the RIF		
FS Class	Avg. Age in 6/96	Avg. Age in 12/96
FA	57	57
CM	55	55
MC	52	53
OC	50	51
1	51	51
2	48	49
3	45	45
4	40	40
5	44	41
6	49	48
7	*	*
8	*	*
9	51	52

*There were no personnel in this employee grade.

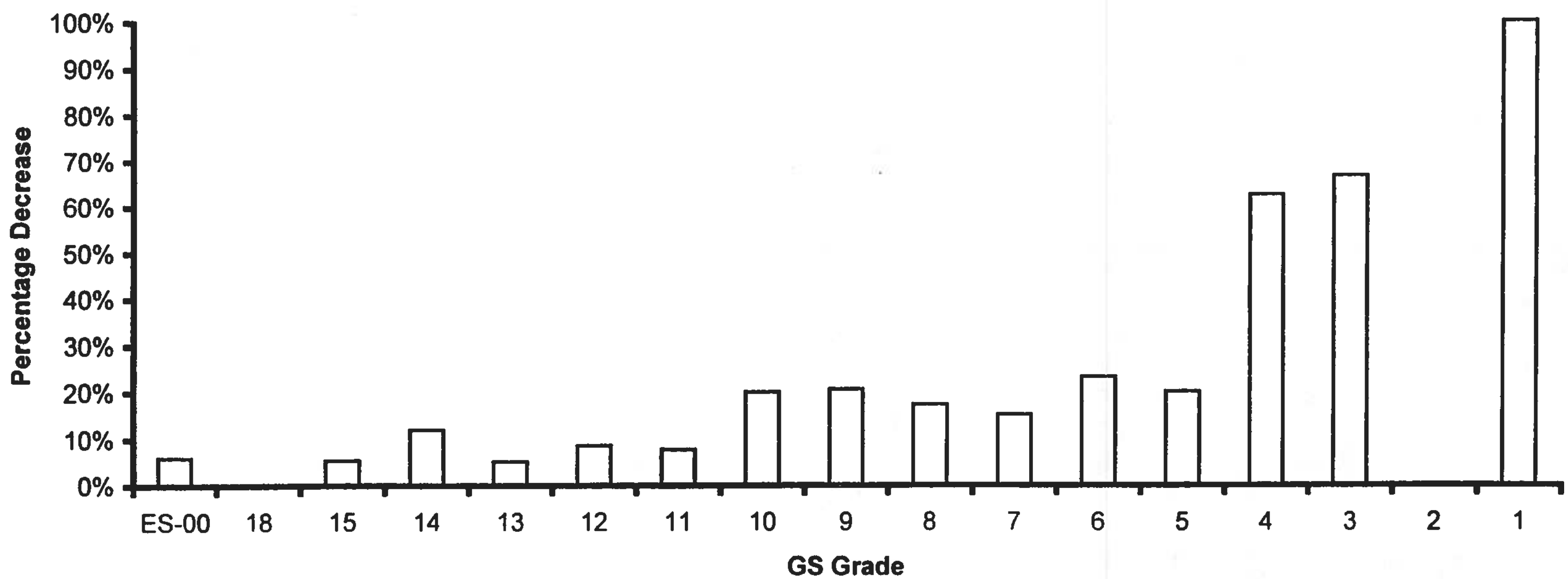
Appendix Page 2
Tables 3-4 and Chart 1

Table Three: Annual USAID Employee Ratios			
DATE	USFS:GS	USFS (DC:OS)*	FTE:PSC
Sep-94	.96 : 1	.51 : 1	.51 : 1
Sep-95	.97 : 1	.59 : 1	.56 : 1
Sep-96	.99 : 1	.53 : 1	.55 : 1
Sep-97	.95 : 1	.59 : 1	.56 : 1
Sep-98	.91 : 1	.59 : 1	.55 : 1

*Washington based USFS : Overseas based USFS

Table Four: Percentage of USAID's Overseas Staff				
DATE	FSNPSC	USPSC	FSNDH	USFS
Jun-94	69.86%	7.31%	9.45%	13.38%
Jun-95	70.72%	7.25%	8.16%	13.87%
Jun-96	71.12%	7.02%	7.17%	14.69%
Jun-97	72.77%	6.88%	6.73%	13.61%
Jun-98	73.29%	7.24%	5.81%	13.74%

Chart One: Percentage Decrease by GS Grade (6/96-12/96)



Appendix Page 3

Charts 3-4

Chart Two: USFS Employee Grade Distribution 6/96

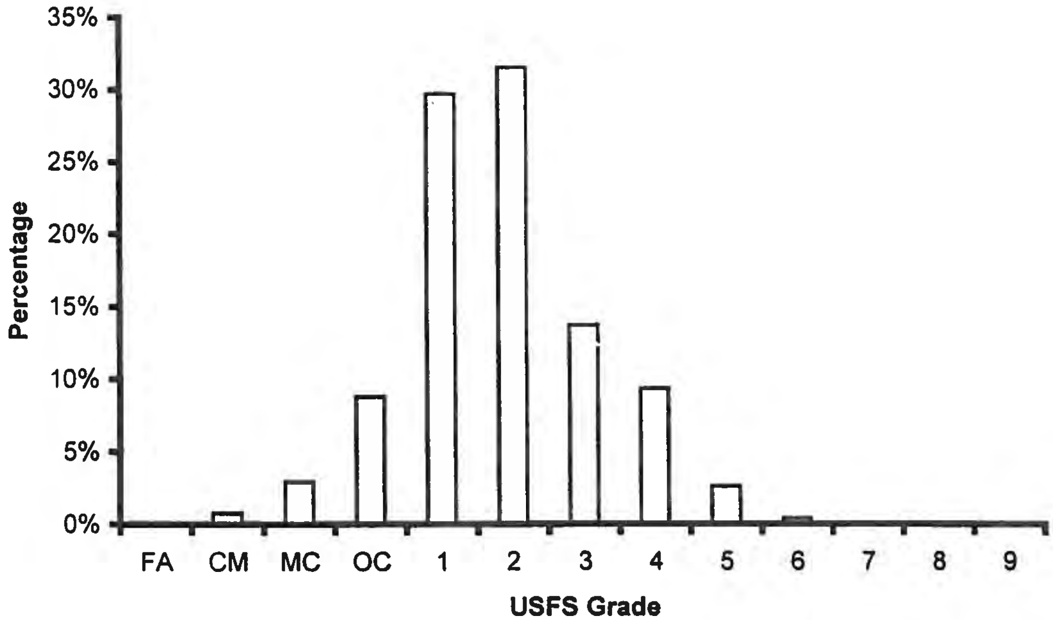
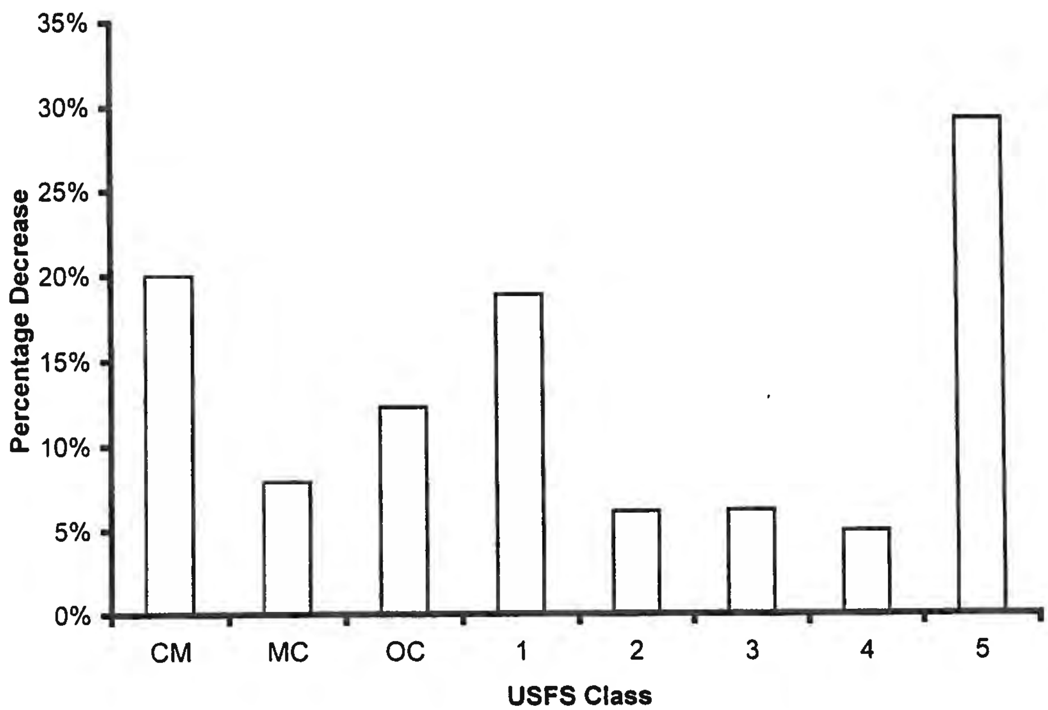


Chart Three: Foreign Service Decreases (6/96-12/96)



Employee grades 6-9 included a total of 3 employees and are not depicted in Chart Three.

Appendix Page Four
Charts 4-5

Chart Four: Percentage Change in Each Grade's Proportion of Total USFS Employees (6/96-12/96)

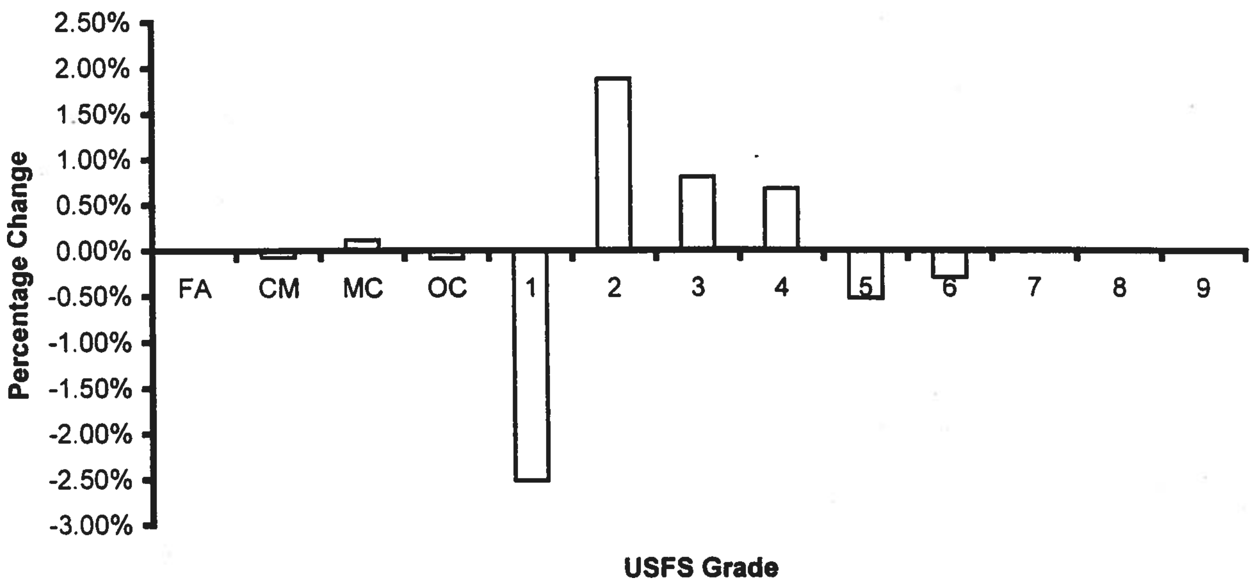


Chart Five: Percentage Change in Each Grade's Proportion of Total GS Employees (6/96-12/96)