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United States General Accounting Office

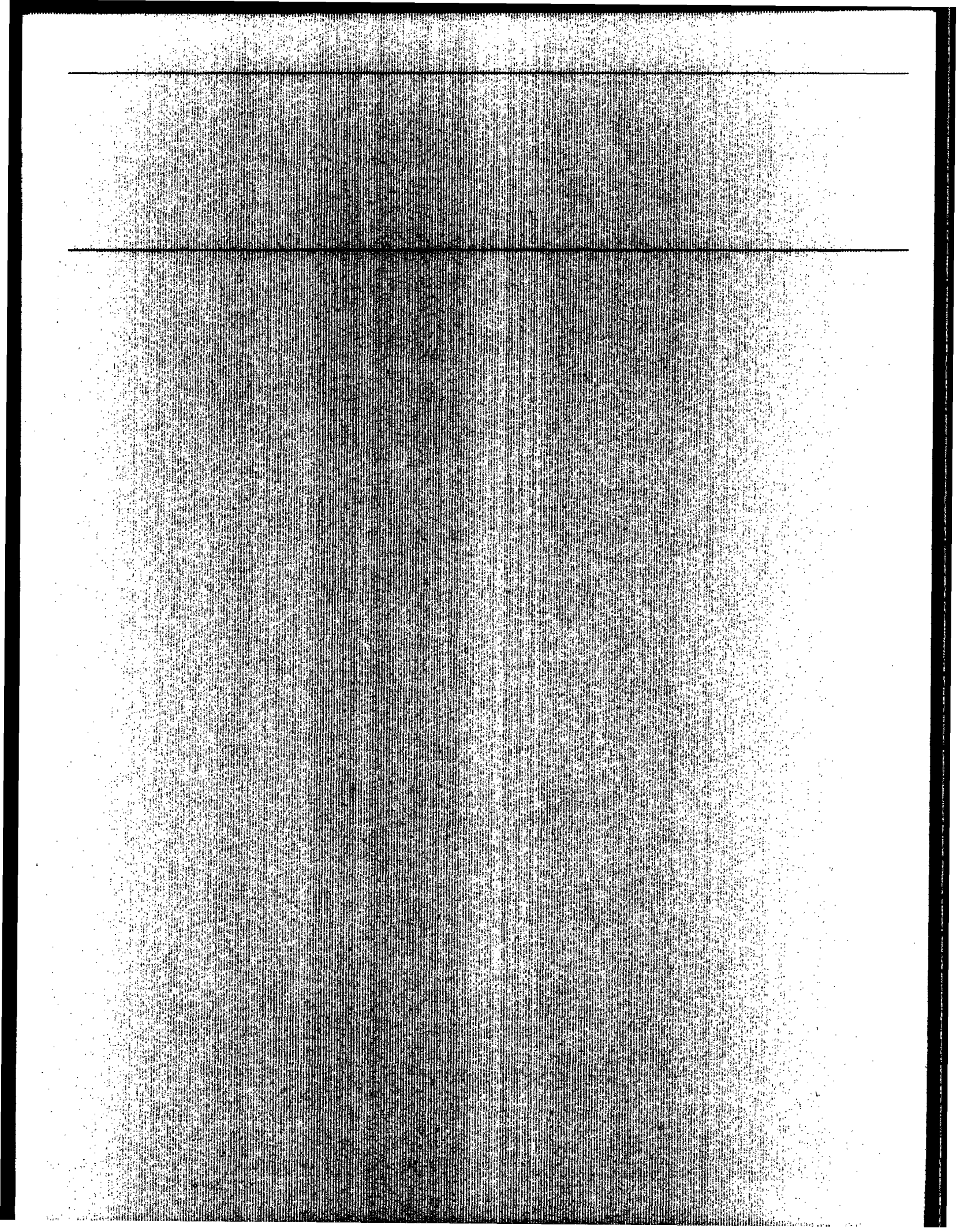
Report to the Administrator, Agency for
International Development

March 1992

AID MANAGEMENT

**Strategic Management
Can Help AID Face
Current and Future
Challenges**





**National Security and
International Affairs Division**

B-247283

March 6, 1992

The Honorable Ronald W. Roskens
Administrator, Agency for
International Development

Dear Dr. Roskens:

This report is the first in a series of reports resulting from our ongoing general management review of the Agency for International Development (AID). AID is the primary agency administering U.S. bilateral economic assistance intended to serve a broad range of U.S. interests—political, economic, commercial, security, developmental, and humanitarian. In this report we look at AID's current efforts to introduce strategic management and compare them to a model for strategic management that we developed for use in other agencies. We also describe some of the persistent management problems and future challenges facing AID.

With the breakup of the Warsaw Pact and the Soviet Union and other dramatic global changes, the United States is confronted with increasing demands for economic assistance, such as supporting emerging democracies in Eastern Europe and Central America and providing assistance to the newly formed Commonwealth of Independent States. The challenge for the 1990s will be to articulate a clear strategic direction and program priorities for the overall U.S. economic assistance program and, in particular AID, during a period of large federal deficits and increased emphasis on domestic needs.

Background

AID was established in 1961 and in its early years focused on large-scale capital improvement projects and key economic sectors. Responding to changing foreign policy goals, AID's authorizing legislation, the Foreign Assistance Act of 1961, as amended, was substantially revised in the early 1970s when the Congress focused foreign economic aid on a strategy to address basic human needs. It has since grown to include more than 30 foreign economic assistance objectives, such as promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses. The House of Representatives attempted to reform AID's authorizing legislation in 1989, and in 1991 the executive branch collaborated in a second effort by submitting a draft bill. These reform efforts have not yet succeeded.

AID administers assistance funds totaling about \$7.5 billion annually and manages over 2,000 ongoing programs and projects in more than 70 countries. Its diverse programs must deal with a rapidly changing world, numerous foreign policy and development objectives, legislated requirements for specific programs, and administrative requirements. Our office, the Congress, and AID and its Inspector General have repeatedly identified significant and recurring management weaknesses. Failure to adequately address these weaknesses has raised questions in several quarters about AID's capacity to manage its programs and respond to its dynamic environment.

A management initiative announced by the Administrator in December 1990 recognized the need for strategic management and identified management goals; however, it did not define a process or represent a comprehensive strategic management plan. In August 1991, an AID task force on reforming the programming system found broad agreement within AID on the management problems of the current system. Among other things, AID ". . . has many sources of policy, but has not established clear program priorities. As a result, operating missions and offices are overwhelmed by multiple objectives—everything is a priority. In response, programs proliferate."

Results in Brief

Numerous internal studies and external reports have identified significant and recurring management problems in most areas of AID's operations. In addition, new programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, force AID to address so many objectives that the agency has no clear priorities or meaningful direction.

AID operations have emphasized project design and obligation of funds more than program effectiveness and results, due partly to a budget cycle in which most funds are returned to the Treasury if not obligated in the year appropriated. Responsibilities at AID have not been clearly defined and various headquarters offices have redundant activities. AID's work force does not reflect its current needs and it does not have a work force planning system. Finally, AID's financial and information resource management systems are inadequate. Appendix I describes in more detail the problems and challenges AID faces.

AID has taken many steps indicated in a strategic management process. The agency has scanned its internal and external environment and has candidly

acknowledged some major weaknesses. It has taken steps to assign management working groups to tackle these tough issues and devise strategies and implementation plans to solve these problems. It has strengthened the resources and mission of its evaluation unit to better assess and communicate program and management successes and shortcomings and provide meaningful feedback.

Despite these efforts, AID still lacks a clearly articulated strategic direction shared by key internal and external groups. Without a clear vision of what AID should be doing and why, AID's efforts to reorganize, focus its program, plan for future work force needs, measure program performance, and implement major changes in financial and management information systems may be futile. Establishing and following a strategic management process should enable AID to develop an agencywide direction, select effective management strategies to achieve this direction and address critical issues, and assign accountability and monitor feedback.

AID's Program Is Shaped by Groups Which Lack Consensus

Throughout much of its history, AID has had to address the sometimes competing concerns of a wide range of groups that are concerned with its mission or have a stake in AID's services and resources. The Congress plays a major role in shaping AID's programs through legislated requirements and various directives. The State Department carries out U.S. foreign policy and has significant input in determining the types of programs AID provides and the countries in which AID delivers assistance. The Office of Management and Budget exercises great influence over AID's operating expense budget and staff levels.

Within AID, development professionals differ on the direction of AID's program. Recipient countries and the organizations that implement AID projects are concerned with the levels of funding they receive, the types of projects and programs funded by AID, and the administrative requirements that govern participation in AID activities. Attempting to respond to a number of groups, AID's program has grown too large and unfocused for its operating expense budget and staff levels.

Current Steps Toward Strategic Management Lack Needed Structural Framework

The Administrator has taken some steps to provide strategic direction and improve various operations. In September 1990, the Administrator appointed a work force planning working group to devise a formal plan to establish minimum staffing standards, develop a coherent staffing pattern based on a skill inventory of all employees, and institute a career development path for each employee. Other ongoing efforts include redesigning the incentives system, developing an agencywide system for measuring program results, and implementing an ambitious agenda for evaluating agency operations. However, our review indicated that these efforts are not being carried out within an overall strategy that links action plans to program and operating expense budgets, assigns accountability, and monitors implementation for lessons learned.

In December 1990, the Administrator announced a strategic management initiative with overall short- and long-term goals. The Administrator also announced four program initiatives intended to focus the agency's programs on the critical issues of the 1990s—a partnership with U.S. business, family and development, natural resource management, and democracy. However, these initiatives were developed by a handful of senior managers at AID headquarters. Some AID officials, congressional staff, and other interested parties did not understand the substance of all the initiatives. Some AID officials stationed overseas said that they had not participated in the planning process and were not asked to comment on the program initiatives until after they had been announced. In addition, the implementing guidance has been vague.

As shown in past AID management efforts, key internal and external groups' support of the process and its outcome is critical to its success. While the Administrator may not satisfy all parties on every decision, they may be more inclined to support plans if they have been able to express their concerns and participate in the planning discussions. In this way, they can better understand the context of AID's actions and the reasons for taking them.

In May 1991, AID announced an agencywide reorganization intended to reduce the number of senior officials reporting directly to the Administrator and provide more accountability for policy, operations, and administration. The Policy Directorate, which includes a strategic planning unit, has begun to identify how the dramatic changes in east-west relations and other emerging global issues will affect AID's mission. However, it is unclear how management decisions on planning, programming, operations, budgets, and personnel levels will be integrated.

A recent AID effort that recognizes strategic management principles is a "managing for results" proposal to reform the AID programming system. The proposal calls for reduced paperwork and headquarters review, greater focus on results, and improved accountability. Among other things, the proposal would clarify overall and country specific program priorities and concentration and link these to expected results.

On January 27, 1992, the AID Administrator and the Director, Office of Management and Budget, jointly announced the formation of a "SWAT Team" to review AID management and financial systems and procedures. The announcement cited numerous reports from our office and those of the AID Inspector General and other reports, and stated that AID must establish improved measures to hold its managers accountable for the successful completion of AID programs. Individual sub-teams will examine the effectiveness of policies and procedures related to AID's personnel and program evaluations and systems for awarding and overseeing contracts. A final report on these matters is to be provided by April 15, 1992.

The management problems to be examined by the SWAT Team and the many issues being addressed by ongoing AID working groups are important and warrant attention. These efforts will hopefully succeed in achieving solutions to specific problems and improving various operational procedures. These actions are very recent, however, and we believe that a well-defined strategic management process would complement the process already begun and enable the Administrator to articulate a clear vision of AID's future, shared by key groups, and establish management and program priorities for AID managers. Institutionalizing such a framework would ensure that the process of identifying and addressing strategic issues and setting a management agenda for AID continues beyond one Administrator's tenure. Appendix II describes a seven-step process that would enhance AID's ability to deliver foreign assistance in the current dynamic environment.

Recommendation

We recommend that the AID Administrator establish a strategic management process and take the steps necessary to identify the key issues to be resolved and articulate a clear strategic direction shared by key internal and external groups. Establishing a strategic management process would include, among other things, ensuring that the systems for making management decisions on programs, budgets, operations, and personnel levels are integrated and include accountability and monitoring.

Scope and Methodology

As part of our general management review, we interviewed over 50 former and current AID officials in Washington, D.C., and reviewed relevant documents and interviewed officials at AID missions in 11 countries in Africa, Asia, Latin America, and the Near East. The interviews and overseas visits provided valuable insight and information on AID's mission and objectives, program and project management, organizational structure, and human resource management.

We examined a number of our prior reports and those of the AID Inspector General, various other internal and external studies, and information on current initiatives and activities. We also reviewed literature on strategic management in the public and private sectors. Our general management review indicated that AID has significant management weaknesses and lacks strategic direction. We compared AID's recent management efforts to a strategic management model that we developed for use at other agencies and analyzed how a similar framework would benefit AID.

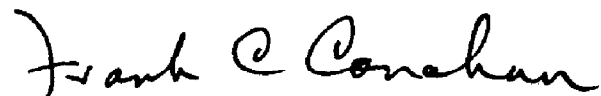
We did not obtain written agency comments on this report. However, we discussed the contents of this report with members of your staff and incorporated their comments as appropriate. We conducted this portion of the general management review between February 1991 and January 1992 in accordance with generally accepted government auditing standards.

As the head of a federal agency, you are required by 31 U.S.C. 720 to submit a written statement on actions taken on our recommendation to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to appropriate congressional committees and the Director, Office of Management and Budget. Copies will also be made available to others on request.

This report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues, who may be reached on (202) 275-5790. Other major contributors are listed in appendix III.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

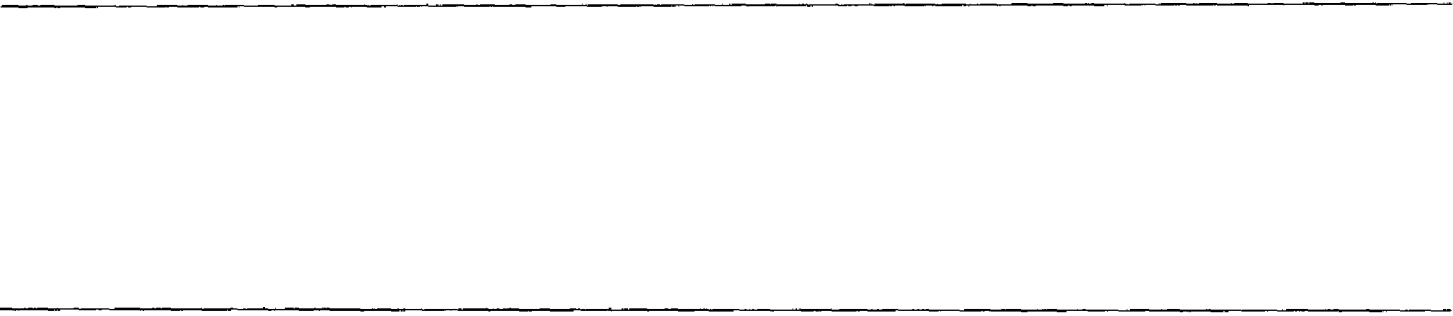
Frank C. Conahan
Assistant Comptroller General

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Abbreviations

AID Agency for International Development



AID Faces Persistent Problems and New Challenges

The Agency for International Development (AID) has significant and recurring management weaknesses and faces a constantly changing global situation that often results in quickly shifting program priorities. It is expected to respond to a variety of demands on its program and resources; however, its operating funds and staff levels are not keeping pace with these demands.

AID Management Problems Persist

Internal and external reports have repeatedly noted persistent problems in the areas of AID's mission and objectives, program and project management, organizational structure, human resource management, financial controls, and information resource management. We are currently preparing separate reports on AID's financial controls and information resource management.

Mission and Objectives

AID does not have a clearly articulated strategic mission. New programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, have resulted in a complicated and incoherent set of objectives with no clear priorities. The Foreign Assistance Act of 1961, as amended, contains more than 30 separate directives covering a wide range of development assistance objectives, such as promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses.

In a prior report,¹ we noted that each directive has merit; however, multiple objectives

- create confusion in assessing congressional intent regarding the direction of the foreign assistance program,
- contribute to a lack of consensus between the Congress and the executive branch on program priorities, and
- reduce the possibility of AID being held accountable for achieving any particular objective.

In addition, the long-term economic development goals of recipient countries often conflict with short-term U.S. foreign policy objectives.

¹Foreign Economic Assistance Issues (GAO/OCG-89-23TR, Nov. 1988).

Program and Project Management

In the early 1970s, the Congress changed the emphasis of U.S. development assistance from large infrastructure projects, such as dams and roads, to activities designed to directly address the basic needs of the poor. Accordingly, AID shifted to numerous smaller-scale projects, which were more complex to design, created added management burdens, had higher administrative costs, and provided less potential for policy leverage with recipient governments.

Increased congressional appropriation of funds in functional accounts reduces AID's flexibility to plan a coherent program at the country level. In effect, strategic planning for development assistance at the country program level has been replaced by a variety of projects undertaken to meet congressional spending directives. The Development Fund for Africa is an exception; it provides programming flexibility with certain spending targets reflecting congressional interest in family planning, natural resource management, and education. The Fund is an example of collaboration between the executive branch and the Congress—both parties recognized that a more flexible programming approach was needed to address the particular needs of sub-Saharan Africa.

Project implementation and program results have not been emphasized as much as project design and the obligation of funds, due partly to a budget cycle in which most funds are returned to the Treasury if not obligated in the year of appropriation. AID has not collected adequate baseline data needed to determine if its programs and projects are effective. AID does not have adequate evaluation systems for measuring the impact of its individual projects, country programs, or overall operations.

Some required management procedures are not always followed. For example, in May 1991² we noted that contrary to AID guidance, missions generally did not conduct assessments of host country contracting, voucher review, and audit capabilities before deciding to use a host country contract.

We reported in 1990 that controls over property accountability and contract close outs were not being effectively implemented.³ We found that AID had not exercised adequate accountability for project funded nonexpendable property in the possession of contractors and that AID's

²Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts (GAO/NSIAD-91-108, May 29, 1991).

³Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, Jan. 22, 1990).

current policy and reporting requirements were not sufficient to ensure systematic close out and final audit of completed contracts. We concluded that these weaknesses made AID vulnerable to contractor misuse of AID-financed property and to paying questionable contract costs.

Other major problems with AID's contracting and procurement activities, which amounted to about \$2.7 billion in fiscal year 1989, include

- insufficient information on the number and value of host country contracts,
- inadequate audit coverage,
- serious shortcomings in controls over payments for goods and services, and
- poor project commodity procurement procedures.

Policy guidance at the overseas mission level is unclear and inadequate. AID has more than 30 handbooks that are intended to be the primary source for agency directives, policy, regulations, procedures, and guidance. However, according to AID officials in the field, the handbooks are voluminous, unclear, outdated, and not well indexed. This has resulted in a growing volume of cable guidance issued by various bureaus in AID headquarters to update and clarify the handbooks. According to AID mission officials, this process is often confusing, sometimes contradictory, difficult to track, and can lead the mission away from AID's overall intended direction. We noted similar problems in our report on AID's overseas contracting.⁴

Organizational Structure

Some congressional critics believe that AID has too many personnel in Washington, D.C. In addition, some AID officials believe that responsibilities within headquarters are not clearly defined and an external study recommended structural changes to reduce the duplication of efforts by various offices and to improve operations. The Administrator reorganized AID headquarters on October 1, 1991, to reduce the number of senior officials reporting directly to the Administrator and to provide more accountability for policy, operations, and finance and administration in the form of three new directorates. It is too early to assess whether the reorganization will achieve its intended goals.

The recent reorganization, however, does not directly affect AID's overseas structure which has remained essentially unchanged for 30 years. Compared to organizations of other countries providing bilateral economic

⁴Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31, Oct. 5, 1990).

assistance, AID has one of the largest and most widespread field organizations. AID maintains that its field presence is necessary due to (1) the need for dialogue to encourage recipient economic policy reform, (2) the political advantages of having an in-country presence, and (3) planning and design needs for assistance projects. However, as we noted in a report on problems and issues affecting economic assistance,⁵ decentralized operations increase programming complexity, make management and oversight more difficult, and increase administrative and program costs. Similar problems were noted in our report on AID's population program.⁶ We pointed out that 43 AID units implement the programs, but with no single program officer or office with overall management authority and oversight responsibility.

Human Resource Management

AID's U.S. direct hire work force decreased from about 8,600 in 1967 to about 3,400 in 1990. At the same time, AID shifted its delivery methods from directly implementing projects to planning, financing, and monitoring projects through recipient countries, contractors, and grantees. Although AID is essentially an agency that manages contracts and grants, not all U.S. direct hire and foreign national staff are adequately trained in this area. AID has only about 1,100 U.S. direct hire staff to manage over 2,000 programs and projects in over 70 countries worldwide. As a result, AID has increasingly relied on personal service contractors and host country nationals to manage its overseas activities. This has contributed to problems in financial and program accountability.

Shifts have also occurred in AID's program directions and development approaches. Many professional staff are not adequately trained in fields currently being pursued by AID such as agribusiness, various policy reforms, sectoral assistance, or international debt issues. During our fieldwork, some AID staff expressed concern over the decreasing numbers of economists at the overseas mission level.

In addition, according to a report by an AID internal work force planning task force,⁷

⁵Foreign Aid: Problems and Issues Affecting Economic Assistance (GAO/NSIAD-89-61BR, Dec. 30, 1988).

⁶Foreign Assistance: AID's Population Program (GAO/NSIAD-90-112, May 1, 1990).

⁷Work Force Planning in A.I.D. (Work Force Planning Working Group, Feb. 8, 1991).

- AID has no widely accepted definition of its work force nor has it agreed on a set of numbers regarding who and how many are in the work force,
- AID lacks a system for work force planning or forecasting of personnel requirements,
- recruitment and assignment systems focus on replacing departing employees and ignore the changes in program directions,
- women and minorities are underrepresented in AID's Foreign Service,
- AID lacks a consistent entry-level program and comprehensive career development process, and
- training programs are often unrelated to career development.

AID Faces Future Challenges

AID is undergoing significant changes related to its program, its means of delivering assistance, the number and composition of its work force, and the size and location of its missions and offices overseas. Events in Eastern Europe and the former Soviet Union and the emergence of new democracies worldwide have recently challenged AID to reassess its method of delivering economic assistance.

In February 1991, the AID task force on work force planning identified some broad assumptions about AID's future which it felt represented a fairly wide consensus in AID.

- AID operations will concentrate on broad-based economic growth, strengthening free market forces, improving individual economic and social well-being, strengthening democracy, improving environment and natural resource policies and management, and disaster relief.
- Despite domestic budget constraints and increased interest in international development on the part of other U.S. government agencies, AID will likely continue to be the lead agency in nonmilitary foreign assistance and is likely to be responsible for even more program resources than at present. Food aid will be a critical component of assistance.
- The trend that began several years ago where funds made available to cover operating expenses did not keep pace with increasing program directives will probably continue, forcing AID to seek even more efficient and economical ways of managing its responsibilities and accounting for the use of funds. AID will rely on other sources of funds to supplement those appropriated for operating expenses.

The task force concluded that these trends will result in the following changes:

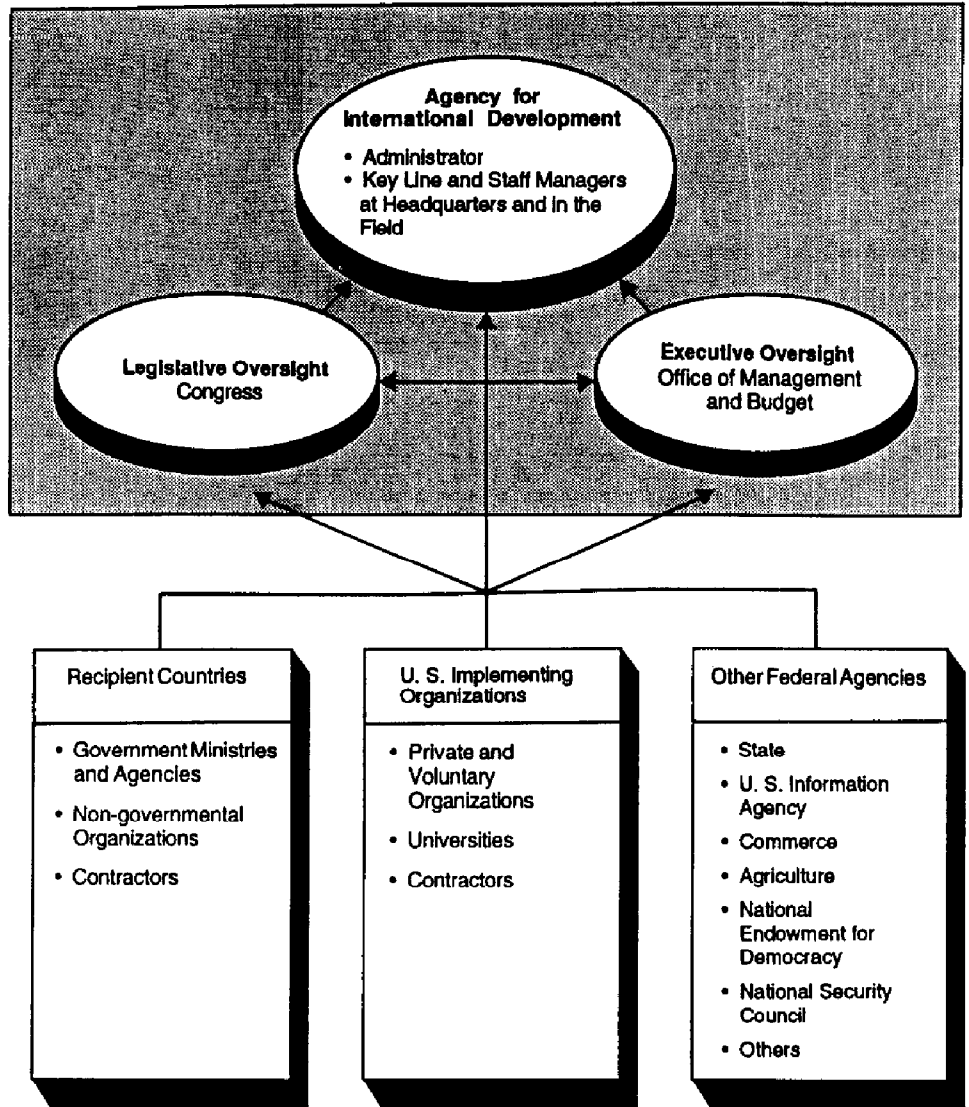
**Appendix I
AID Faces Persistent Problems and New
Challenges**

- fewer direct hire staff and smaller missions and headquarters,
- less emphasis on project assistance with greater emphasis on national and sectoral policy reform,
- increased reliance on contractors and various types of organizations to implement AID-funded activities, and
- greater value placed on personnel with management and analytical skills and those with a combination of management and technical abilities.

**AID's Program Is
Shaped by Groups
Which Lack Consensus**

One long-standing challenge facing AID is that it must address the sometimes competing concerns of a wide range of groups that are concerned with AID's mission or have a stake in its services and resources. Figure I.1 depicts some of these groups and AID's main constituents.

Figure I.1: Groups Concerned with AID's Mission



Note: Groups concerned with AID's mission are generally any individual, group, or organization that can place a claim on AID's attention, resources, or output or is affected by AID's output. The Congress and AID's Administrator and key managers are directly concerned with AID's mission and may also represent other concerned groups.

The listing of groups concerned with AID's mission is for discussion only and is not intended to be all inclusive.

**Primary U.S. Government
Entities**

Congress plays a major role in shaping AID's programs and operations by appropriating program funds in separate functional accounts and various other earmarks and directives, often designed to respond to various U.S. constituencies. It also directly influences AID's resources by separately appropriating operating expenses. The important role of economic assistance in U.S. foreign policy means the Department of State may influence the direction of AID's program and the selection of countries in which AID delivers assistance. The Office of Management and Budget exercises great influence over AID's operating expense budget and staff levels.

Officials within AID also influence its direction. Like many federal agencies, AID employs a number of political appointees who have advanced the agenda of different presidential administrations over the years. Some career professionals are increasingly concerned that AID is becoming more focused on advancing the overseas interests of U.S. business than on improving the living standards in developing countries.

**Groups Outside U.S.
Government**

Recipient countries and the organizations that implement AID projects are concerned with the levels of funding they receive, the types of projects and programs funded by AID, and the administrative requirements that govern participation in AID activities. Interest groups, including foreign governments and U.S. implementing organizations, follow congressional actions closely to ensure that specific earmarks are maintained and legislative directives meet their special concerns.

As an example of the stakes involved, as of July 31, 1990, 277 U.S. private and voluntary organizations registered with AID and were eligible for development assistance funding. During the first three fiscal quarters of 1990, AID had provided these organizations with over \$1 billion in the form of grants, contracts, U.S. government-owned property, ocean freight subsidies, and food aid. In some cases, these organizations acted as independent agents, conducting their own programs, with AID's financial and technical support to meet mutual goals in such areas as disaster assistance, microenterprise development, environmental preservation, child survival, and democratic institution building. In other cases, they implemented specific projects for AID. U.S. universities also have an important stake in AID activities. In fiscal year 1990, 265 U.S. universities had 475 active contracts, grants, or cooperative agreements financed by AID totaling about \$805 million in cumulative obligations.

Emerging International Role of Other U.S. Government Agencies

When AID was established in 1961, it was the primary U.S. government channel for providing economic assistance to developing countries. However, in recent years, other federal agencies and federally funded organizations—such as the National Endowment for Democracy—have played an increasingly active role in providing such assistance. For example, in a recent report⁸ we identified 18 U.S. foreign and domestic government agencies and quasi-governmental organizations that were providing assistance to Eastern Europe as of September 30, 1991. In some cases, the funds used to support such international activities are appropriated directly to government agencies. In other cases, the funds pass through AID, which is accountable for the use of the funds, although the Congress directs how the funds should be spent.

AID Has Taken Some Steps Toward Strategic Management

Since December 1990, AID has taken a number of steps to articulate new program directions and reorganize its policy functions. Numerous other task forces are addressing such issues as work force planning and measuring program performance.

Management and Program Initiatives

In December 1990 the then new AID Administrator published a new mission statement and announced several management and program initiatives. The “Towards Strategic Management” initiative set forth, among other things, five short-term management goals—streamlining the agency’s portfolio and structure, developing and rewarding the work force, strengthening evaluation of the agency’s program, improving financial controls and accountability, and improving information technology. The program initiatives were focused on what the Administrator considered to be the critical issues of the 1990s—a partnership with U.S. business, the role of family in development, the environment and natural resource management, and democracy.

Although the management initiative identifies key strategic issues to be addressed and the Administrator has assigned working groups to devise problem-solving strategies, AID does not have a formal, institutionalized process to ensure follow through. In addition, the program initiatives were developed by a small number of senior personnel, and some AID officials are concerned that they were not designed to address the needs of developing countries. The confusion over AID’s direction will likely hamper efforts at strategic management. For example, planning a work force to

⁸Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991).

carry out AID's future mandates may be futile if the agency is unclear about its future role.

New Policy Directorate

As part of the AID headquarters reorganization effective October 1, 1991, the Administrator formed a Directorate for Policy with four units—Strategic Planning, Policy Analysis and Resources, International Donor Programs, and the Center for Development Information and Evaluation. The Policy Directorate has lead responsibility for guiding a new strategic planning process and advised the Administrator on program priorities for the 1993 Congressional Presentation. The Directorate is responsible for several activities compatible with strategic management principles—program and policy research, program monitoring, program and management evaluation, policy liaison with external organizations, internal policy communications, and managing the information systems that support these functions.

Managing for Results

In December 1991, the Administrator approved a proposal to reform the AID programming system to reduce paperwork and headquarters review, focus on results, and improve accountability. The plan is designed to incorporate strategic management principles in many areas of AID's operations. As a results oriented approach to programming, AID officials expect the proposed process to ensure that the agency

- clarifies overall program priorities and concentration,
- agrees on country priorities and needed intervention consistent with agency objectives,
- improves headquarters resources that support field programs,
- specifies country program objectives in terms of expected results,
- increases decentralization of decision-making with increased accountability for results,
- improves the contracting process to incorporate performance standards directly related to planned results,
- simplifies and integrates agency information systems, and
- updates program and policy handbooks to include standards for excellence.

The plan indicates that to transform its organizational culture and make its reorganization complete AID must move from procedures that focus on program-related design and funds obligation to a process that emphasizes and rewards implementation and development results. AID recognizes that

managers need to support the new programming approach if it is to succeed. AID hopes to gain this support for the new approach by allowing managers more flexibility in focusing portfolios and determining reporting requirements. Bureaus are issuing guidance that encourages missions to focus on fewer strategic objectives. Most important, AID acknowledges that the Congress and other key external groups must support innovative approaches to managing foreign assistance.

AID plans to proceed with this approach and has already begun preliminary steps necessary to reform the programming process. AID hopes that success in implementing the plan will prove to decisionmakers that managing for results is working and, therefore, lead to congressional agreement on more streamlined program objectives.

On January 27, 1992, the AID Administrator and the Director, Office of Management and Budget, jointly announced the formation of a "SWAT Team" to review AID management and financial procedures. The announcement cited numerous reports from our office, the AID Inspector General, and other reports, and stated that AID must hold its managers accountable for the successful completion of AID programs. Individual sub-teams will examine whether AID's (1) personnel evaluation systems ensure accountability for program and project management, (2) systems for tracking and assessing program and project performance are effective, (3) policies and procedures for awarding grants and contracts are appropriate and the use of contractors to design, oversee, and administer projects is effective, (4) pre-contract and project award audit policies and procedures provide appropriate management controls, and (5) program and evaluation systems need improvement. A final report on these matters is to be provided by April 15, 1992.

We agree that the management problems to be examined by the SWAT Team and the many issues being addressed by ongoing AID working groups are important and warrant attention. These efforts may succeed in achieving solutions to specific problems and improving various operations. However, a framework for strategic planning and management, similar to the model presented in appendix II, would link these efforts to a clear agencywide agenda and ensure that the process of identifying and addressing strategic issues continues beyond the tenure of one Administrator.

Seven-Step Strategic Management Framework

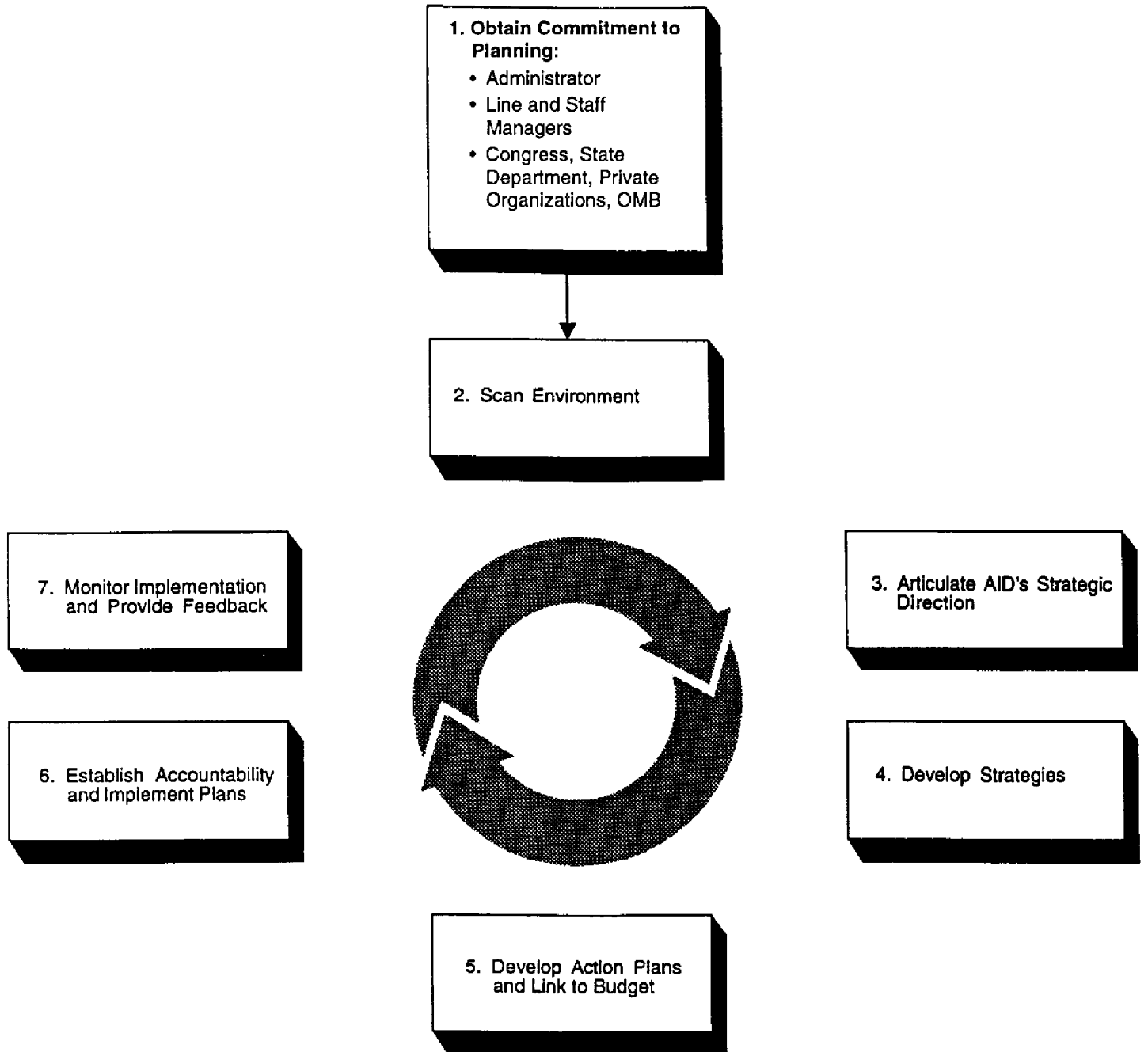
In our prior reports we defined the strategic management framework as a disciplined, systematic process linking commitment to planning and goal setting to strategies, budget, and accountability. The framework¹ presented in figure II.1 can be used in any federal agency to enhance its capacity to respond to a dynamic environment and manage change by focusing senior management attention on identifying and resolving key issues. This framework can be used to (1) develop an agencywide direction, (2) select effective management strategies to achieve this direction, and (3) assign accountability and monitor implementation progress.

The proposed strategic management framework has seven elements. Elements 1 through 5 comprise the strategic planning aspects of the process, while elements 6 and 7 are management functions. Although figure II.1 depicts a sequential process, it is iterative—successful problem solving may require that some elements be revisited.

¹This model was proposed in Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/HRD-90-109, Aug. 31, 1990).

**Appendix II
Seven-Step Strategic Management
Framework**

Figure II.1 Proposed Strategic Management Framework



At AID, the Administrator is the key figure in the strategic management process. The Administrator is the leader in obtaining the support of key groups and is responsible for articulating AID's strategic direction and making decisions vital to each element of the planning process. By showing strong, sustained support for the process, the Administrator can encourage its acceptance into AID's organizational culture.

Strategic Planning Elements

Obtain Commitment to Planning

The purpose of obtaining and establishing a commitment to planning is to obtain the support of key groups for the strategic management process. Participants should include the Administrator; key AID line and staff managers at headquarters and in the field; and representatives of external groups concerned with the AID's mission, including the Congress, the Office of Management and Budget, the State Department, major implementing organizations and contractors, and other federal agencies involved in delivering foreign aid. Participants in this element must agree on the ground rules for conducting the strategic management process. This initial agreement could cover aspects of the process, such as (1) its purpose, (2) who should participate, (3) how it will be conducted, (4) the roles and functions of key players, (5) other participants, (6) schedule of accomplishments, and (7) commitment of necessary resources.

In the past year and a half, AID has attempted to involve the Congress in the process of planning program changes. For example, in October 1990, AID senior managers met for several days with congressional staff members to discuss the new program initiatives and other issues. According to one AID official, the meeting was productive and provided a forum for individuals representing competing interests to communicate. AID officials later provided additional briefings to Members of the Congress and their staff and submitted a draft bill for consideration in revising the Foreign Assistance Act. However, despite AID's efforts to work more closely with the Congress and the 1991 attempt to rewrite the act, agreement could not be reached and the act was not amended in 1991. As a result, AID continues to lack a clear direction on its role partly because it is expected to respond to a myriad of congressional directives and reporting requirements.

AID involved some key internal groups in the planning process through the extensive use of committees and frequent staff updates on the progress of the reorganization and other initiatives. However, the Administrator's new program initiatives were initially developed by four senior AID managers. Some AID officials stationed overseas said they had not participated in the planning process and said that they had not been asked to comment on the program initiatives until after they were published. Within a strategic management framework, it is important to involve staff in the planning process to encourage support and understanding for its outcomes.

Historically, AID has established many internal committees to analyze management problems but has not carried through in implementing the recommendations of those committees. Institutionalizing a strategic management process could help AID overcome this pattern of inaction and ensure that strategic management continues beyond one Administrator's tenure.

Scan the Environment

The purpose of scanning the environment is to obtain data to identify and analyze a range of possible strategic issues and support decision-making throughout the process. Participants include the Administrator and agency line and staff managers with input and assistance from staff and external groups as appropriate. These participants would assess AID's internal and external environment and identify a range of possible strategic issues and their implications. Internal scanning identifies organizational strengths and weaknesses that may help or hinder attainment of strategic direction, including underlying weaknesses in major management systems. External scanning identifies and assesses external conditions that may affect the agency in the future. Within a strategic management framework, key internal and external groups participate in the process, provide feedback on the conclusions, and share more fully in the articulated strategic agenda.

The major studies on foreign assistance reform that have been published since 1989 and the many AID committees that have been working on the Administrator's initiatives have identified a wide range of possible strategic issues related to AID's program and management. As discussed in appendix I, AID has taken a number of steps to assess and address its internal strengths and weaknesses and the global changes affecting its mission.

**Articulate AID's Strategic
Direction**

The purpose of this element is to envision in broad terms AID's future direction. Participants include the Administrator; key line and staff managers; and representatives of external groups concerned with the agency's mission, such as those parties initially involved in the commitment to planning. Participants will establish a clear direction for AID's future actions and select the strategic issues that the process will address.

Lessons learned from past AID management improvement efforts show the need for a clear, agencywide direction to set broad guidelines and provide a basis for internal and external groups to judge AID's progress in fulfilling its mission. Although the Administrator published a new mission statement and program initiatives in December 1990, our review indicates that these efforts were not developed in a framework that would provide the consensus AID needs to focus its program.

The Administrator could use the data gathered during the scanning process to clarify and interpret AID's mission or purpose and work toward a vision that is shared by key internal and external groups. Although many strategic issues may be identified during scanning, participants select only the few key issues that are most critical to AID's basic objectives and its ability to achieve them. Focusing on key issues is consistent with lessons learned from past efforts, in which AID managers attempted to address too many objectives, resulting in fragmented country programs and cumbersome program planning and budgeting processes.

Develop Strategies

This element is intended to select the best approaches to address each strategic issue and achieve the strategic direction. Participants include key agency line and staff managers. Key external groups participate as appropriate. Tasks in this phase include (1) identifying alternate strategies to address each strategic issue, (2) identifying barriers and consequences of implementing alternatives, and (3) selecting the alternative with the greatest potential for success and support from external groups.

AID has formed various committees to identify strategies for addressing some of AID's key management problems. For example, in September 1990, the Administrator appointed a work force planning group to devise a formal plan to establish minimum staffing standards, develop a coherent staffing pattern based on a skill inventory of all employees, and institute a career development path for each employee. Other efforts include a proposal to reform the programming process to reduce paperwork and

headquarters review, focus on results, and improve accountability. AID established other working groups to further define each new program initiative and devise strategies for implementation. Although these have not been completed, some regional bureaus have issued guidance on the initiatives and on focusing overseas mission portfolios on fewer strategic objectives.

Develop Action Plans and Link to Budget

This element is intended to develop action plans and obtain resources needed to implement selected strategies. Participants are primarily line managers who would develop detailed action plans based on selected strategies and ensure that action plans shape budget submissions. In a strategic management framework, component managers translate selected strategies into specific short- and long-term action plans that will move the agency in the desired direction. The ideal plans would

- list in specific, measurable terms the outcome to be desired so that it will be possible to determine whether the outcome has been achieved;
- provide a time frame for the desired outcome, so results can be measured at a specific point;
- offer the expectation that, with the proper use of resources and staff, the desired outcome can be accomplished; and
- relate directly to a strategic issue, consistent with the agency's strategic direction.

In May 1991, AID developed a management action plan that established the October 1, 1991, milestone for completing the reorganization of AID headquarters and set subsequent deadlines for implementing a revised project and design approval process, employee incentive system, performance measurement system, and procurement process. However, the plan did not identify costs associated with these initiatives and was not linked to the agency's budget. At the time of our review, agency plans for the program initiatives were being developed and some activities were funded and underway. Officials said that fiscal year 1993 budget guidance would include instructions for incorporating other new program activities in country program plans.

Management Elements

Establish Accountability and Implement Plans

The purpose of this element is to ensure implementation of action plans. Participants include agency managers and staff. Their tasks include (1) assigning responsibility for implementing action plans, (2) making action plans a reality by incorporating them into operations, and (3) linking the individual reward system to implementing plans.

After senior management review action plans for consistency with AID's strategic direction, specific units and individuals would be assigned responsibility for implementing the plans. Action plans would be incorporated into operations and linked to the employee incentive system to increase commitment to the implementation process. At the time of our review, an AID committee was studying AID's incentive system and ways to increase employee commitment and accountability.

Monitor Implementation and Provide Feedback

This element is intended to evaluate progress in implementing action plans and to ensure that relevant information flows between the components and the Office of the Administrator. Participants would include the Administrator and agency managers. Participants would (1) monitor progress toward implementing action plans, (2) periodically report progress and problems to the Administrator, (3) assess the adequacy of action plans and take the necessary corrective measures, and (4) fine-tune the strategic management process as required.

Effective review and monitoring do not require extensive controls. Experiences at other federal agencies that implement strategic management processes suggest that when monitoring becomes complex and involves excessive paperwork, strong opposition results. AID's central evaluation unit is developing an agencywide system of program performance information for strategic management. The new system envisions a network of partially overlapping program performance information systems that can meet management needs at different organizational levels, while providing agencywide information for top executives. It is to draw on the program performance information systems already being used in some AID missions and bureaus. AID is also studying ways to measure country level performance, program and project level performance, and management performance.

**Appendix II
Seven-Step Strategic Management
Framework**

These seven elements make up the framework for a strategic management process. If adopted, AID would need to develop the details of how the process should be implemented and adapt it as appropriate.

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