

GAO

Report to the Congress

June 1993

FOREIGN  
ASSISTANCE

AID Strategic Direction  
and Continued  
Management  
Improvements Needed



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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

B-247725


June 11, 1993

The President of the Senate and the  
Speaker of the House of Representatives

This report is one of a series containing the results of our management review of key executive branch agencies. It discusses the need to address management problems at the Agency for International Development (AID) to ensure that AID is adequately meeting its foreign economic assistance responsibilities.

We are sending copies of this report to appropriate congressional committees, the Secretary of State, the Administrator of AID, the Director of the Office of Management and Budget, the AID Inspector General, and other interested parties.

This report was prepared under the direction of Harold J. Johnson, Director, International Affairs Issues, who may be reached on (202) 512-4128. Other major contributors are listed in appendix IV.

  
for Charles A. Bowsher  
Comptroller General  
of the United States

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# Executive Summary

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## Purpose

The Agency for International Development (AID) is at a critical juncture in its 30-year history. Even as AID is tasked to undertake new, ambitious initiatives such as providing assistance to the successor states of the former Soviet Union, it has come under increasing scrutiny from internal and external groups concerned that its management of the current foreign aid program has been poor. Moreover, the Soviet threat that once was the glue for political and popular support of foreign aid has disappeared, and it is uncertain what resources AID will have available during this period of tight federal budgets.

GAO initiated this broad-based evaluation of AID's management capabilities to determine whether the agency has (1) effectively coped with the rapid expansion of its responsibilities, (2) established effective management controls over its decentralized operations, and (3) adequately managed its human resources. Other GAO reports related to this general management review of AID address the need for AID to adopt a strategic management process and improve its financial and information resource management practices.

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## Background

Since 1961, AID has been the primary agency delivering more than \$180 billion in U.S. foreign economic assistance to 153 countries. AID cites among its achievements helping to immunize 300 million children, training 300,000 foreign participants for leadership roles in their countries, and delivering more than 320 million tons of agricultural commodities to approximately 2 billion people. The foreign aid program has attempted to meet a wide range of national objectives—political, economic, commercial, security, developmental, and humanitarian—with the emphasis on each objective shifting over time. During the 1980s and early 1990s, the scope of the foreign aid program expanded as the United States encouraged countries to follow appropriate macroeconomic policies and grappled with how to respond to a range of worldwide problems. AID was also asked to address emerging issues such as international debt, narcotics control, environmental degradation, and the spread of AIDS, which required new strategies and approaches. Most recently, AID has begun initiatives to support new democracies in Central and Eastern Europe and the republics of the former Soviet Union.

AID administers foreign aid through a highly decentralized organizational structure, with its headquarters in Washington, D.C., and missions spread around the world. In fiscal year 1991, the agency obligated approximately \$7.3 billion for a variety of programs. AID does not control all the funds

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appropriated to it—over half the funds AID receives are allocated through legislative directives and by the Department of State—but AID is nevertheless responsible for administering these funds.

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## Results in Brief

AID entered the 1990s unprepared to meet the management challenges before it. Fragmented both programmatically and organizationally, the agency has not effectively administered an increasingly diffused foreign aid program or ensured accountability for its decentralized operations. AID has suffered from a lack of consensus among key internal and external groups on the goals and priorities of the foreign aid program, and as a result, the program expanded in several different directions at once. The expansion has spread the agency's resources too thinly and diffused its impact in developing countries. Complete consensus among AID's many stakeholders on the future of U.S. foreign aid may be an unattainable goal and progress in narrowing the range of differences will require the active participation of top level executive branch officials and the Congress. However, in the past, AID had shown little leadership in attempting to resolve these problems, and, in some cases, exacerbated them.

AID's organization has become so diffused that it often appears to operate as a loose affiliation of independent mini-agencies, each with its own agenda. In decentralizing decision-making, AID did not institute management controls to hold officials accountable for implementing programs in accordance with AID policy. AID has not done enough to ensure that its employees (1) have the skills they need to meet new management and administrative responsibilities and (2) are appropriately allocated among its missions. These problems are, in part, due to inadequate work force planning and recruitment, limited access to training, and funding constraints.

In response to criticisms by GAO, the AID Inspector General, the President's Commission on the Management of AID Programs, and a joint AID/Office of Management and Budget (OMB) study team, AID began in mid-1992 to develop a management improvement plan that calls for specific management reforms and sets target dates for their implementation. AID has made recent progress in establishing a work force plan and in relating the plan to recruitment and training.

GAO notes that many of AID's actions are very recent and some are still being planned. Moreover, AID has not yet integrated these activities into a strategic management process that encompasses all activities of the

agency, including the allocation of operating expense funds. These management reforms, while important in their own right, need to be accompanied by achievement of greater consensus on the future of the foreign aid program. The full effectiveness of foreign assistance is dependent upon both.

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## Principal Findings

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### Diffusion of the Foreign Aid Program Has Constrained AID Management

AID's management approach and organizational capacity have not kept pace with the increasingly diffused scope of the foreign assistance program and the expanding number of countries in which it operates. The Foreign Assistance Act of 1961, which authorizes AID's programs, has been amended several times and now delineates more than 30 separate wide-ranging objectives. These mandates have been augmented by other congressional directives and by programs introduced over the years by various AID Administrators, resulting in a complicated set of objectives with no clear priorities. Also, AID has significantly expanded its operations, increasing the number of overseas offices from 78 in 1987 to a projected 105 in 1993.

AID's resources are allocated among too many objectives and countries to be effective in addressing all of them. In some instances, AID's relatively small programs have had such a negligible effect on a country's development that the effect may not justify AID's in-country presence. Numerous studies, including reviews by GAO, a congressional task force, and a commission appointed by the President, have shown that AID has not effectively managed, and has not been held accountable for achieving results from, such a diffuse foreign assistance program. In addition, opening new overseas offices has further burdened its operating expense budget, resulting in greater dependence on contractors and a greater potential that programs will be vulnerable to fraud, waste, or abuse for lack of adequate oversight.

### Key Groups Lack Consensus on the Goals and Priorities of Foreign Assistance

The fragmentation of the foreign assistance program is largely due to a lack of consensus among the many groups that are concerned with AID's mission or have a stake in its services and resources. The program has been buffeted by (1) the competing agendas of other federal agencies, (2) the role Congress has taken in programming decisions, (3) the lobbying

efforts of outside special interest groups, and (4) fundamental differences among and within these groups on how foreign aid money should be spent and what it should accomplish.

The State Department and OMB exercise significant decision-making control over AID. The State Department may stipulate the countries in which AID can open or maintain missions and may restrict the number of staff authorized at a given mission. OMB establishes the overall levels for direct-hire staff and operating expense funds requested in AID's annual budget submission to the Congress. Special interest groups influence AID's programs primarily through lobbying efforts in Congress to ensure that they obtain and maintain specific funding targets.

Frustrated with the management of the foreign aid program, Congress has become increasingly involved in programming decisions through funding allocations and budget set-asides. AID officials have said such congressional involvement has hampered their ability to both (1) use foreign aid as leverage to secure needed economic reforms and (2) target assistance to what they consider the most pressing development needs of recipient countries. AID stated that it hopes agreement can be reached on priorities and that a balanced program will emerge in the near future.

Forging a consensus on the goals and priorities of the foreign aid program will be crucial to AID's success in managing the program. AID has begun to encourage key internal and external groups to take up this issue by establishing a strategic management framework such as the one GAO recommended.<sup>1</sup> While AID has begun this process, it has not yet been able to fully implement the strategic management concepts that would enable it to better focus and concentrate its limited resources. According to AID, during 1992 it had frank and useful discussions with key stakeholders regarding key development issues, but its strategic planning efforts are constrained by the lack of consensus about the future of foreign aid within the U.S. government and between the government and other key stakeholders.

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**Lack of Central Controls  
Has Resulted in a  
Fragmented, Ineffective  
Organization**

AID has maintained that its decentralized organizational structure and management approach is appropriate given the widely varying development and assistance needs of the numerous countries in which it operates. GAO recognizes that this is an accepted management philosophy,

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<sup>1</sup>AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

but for AID's decentralized organization to function effectively and efficiently, it must have strong management controls to ensure that headquarters offices and overseas missions implement programs in accordance with agency policies and priorities.

Because AID lacked such management controls, its offices in Washington, D.C., and overseas missions have operated with too much independence—each often setting its own objectives, developing its own implementation strategies, and instituting its own management systems—at times, impairing program effectiveness. For instance, AID did not respond quickly to combat AIDS in developing countries in part because of turf battles among bureaus.<sup>2</sup> The population program was being implemented by 43 units within 4 separate bureaus, but no single office had overall management authority and oversight responsibility.<sup>3</sup> GAO reviews of these and other programs have disclosed a number of areas where strong central direction and management controls to ensure compliance were lacking. For example, AID had not (1) developed adequate information and management systems, (2) provided meaningful guidance, (3) ensured compliance with directives and management procedures, (4) delegated sufficient authority to senior headquarters managers, (5) held overseas missions accountable for the performance of their programs, or (6) established a comprehensive evaluation system for measuring project and program results.

AID attempted to address organizational diffusion and the lack of central controls in its 1991 reorganization. The purposes of the reorganization were, among others, to try to eliminate “mini-agencies” and to get the agency “to speak with one voice.” However, the reorganization did not establish mechanisms for strong central control and oversight, such as policy guidance and information systems to hold offices and individuals accountable. AID has undertaken other efforts to improve control over the agency, such as beginning to implement the recommendations of GAO's March 1992 report on strategic management.

Also, in mid-1992, AID initiated a management improvement plan to address problems within its control. The plan focuses on achieving results by emphasizing comprehensive improvements in project, grant, program management, and implementation—as well as related improvements in human resource management, program evaluation, management

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<sup>2</sup>Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-244, June 19, 1992).

<sup>3</sup>Foreign Assistance: AID's Population Program (GAO/NSIAD-90-112, May 1, 1990).



information systems, financial management, contracting, and audits. AID states that these are the most urgent internal management issues it faces in which improvement can be made without legislative changes, agreement on new directions, or, in most cases, significant additional resources to achieve significant benefits. AID officials said they have achieved initial successes in addressing the areas of vulnerability cited by its external critics. However, it is too early to assess whether AID's efforts will resolve its long-standing problems.

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### AID Has Not Adequately Managed the Changes in Its Overseas Work Force

Over the years AID increased the number of programs and projects implemented through outside parties, such as institutional contractors and private voluntary organizations, and consequently, AID's direct-hire employees have taken on additional management and administrative responsibilities for which they frequently lack the needed skills. GAO found numerous instances of this. Staff in the Bangladesh, Kenya, and Niger missions, for example, said they lacked skills in contract administration, financial management, and other important areas for which they are responsible.

Such skill shortages have been largely due to ineffective placement and recruitment and limited access to training. AID officials acknowledge the problem and anticipate that their emerging work force plan will evolve into a system for helping to better match employees' skills with missions' needs. Until remaining deficiencies in its human resource management are corrected, however, AID will not be able to make the most effective use of its work force.

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### Recommendations

GAO makes numerous specific recommendations in chapters 2, 3, and 4. GAO recommends that AID play a leadership role in developing a strategic direction for U.S. foreign economic assistance. Further, the AID Administrator needs to bring AID's management systems into balance with the agency's decentralized organizational structure and establish a "total work force" planning and management process.

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### Agency Comments and GAO's Evaluation

In commenting on a draft of this report, AID agreed with GAO's findings and recommendations. AID recognized that it needs to take an active part in the ongoing Clinton Administration review of U.S. foreign affairs programs and institutions and collaborate with Congress and other key stakeholders in obtaining a greater consensus on the future of the foreign aid program

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**and that its mission and objectives should support U.S. foreign policy objectives. AID stated that it will initiate a wide range of management improvement efforts through the strategic management process that GAO proposes. AID cautioned, however, that its problems will not be cured overnight. GAO agrees that a sustained effort over time will be required to achieve the necessary management reforms.**



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**Abbreviations**

AID	Agency for International Development
AIDS	acquired immune deficiency syndrome
AID/W	Agency for International Development in Washington, D.C.
DFA	Development Fund for Africa
GAO	General Accounting Office
HIV	human immunodeficiency virus
OMB	Office of Management and Budget
PRISM	Program Performance Information for Strategic Management

# Introduction

The Agency for International Development (AID) faces a difficult task during the 1990s. As the primary agency for delivering U.S. foreign economic assistance, it is responsible for meeting a wide range of foreign policy objectives. The agency also has begun to undertake new initiatives, such as providing assistance to the successor states of the former Soviet Union. At the same time, AID has come under scrutiny from internal and external groups that have identified serious problems in how the agency sets its priorities and manages foreign assistance. Moreover, AID's operating environment has changed significantly in the last few years—no longer does the Soviet threat serve to provide wide political and popular support for foreign aid—and it is uncertain what resources the agency will have available during this period of tight federal budgets.

## AID Is the Primary Agency for Delivering U.S. Bilateral Economic Assistance

AID was established by executive order in 1961, and Congress that year passed the Foreign Assistance Act authorizing the agency's foreign aid program. Since then, the United States has provided more than \$180 billion to 153 countries to finance thousands of projects and programs administered by AID throughout the world. Among its diverse achievements, AID cites helping to immunize 300 million children, training 300,000 foreign participants in the United States for leadership roles in their countries, and delivering more than 320 million tons of agricultural commodities to approximately two billion people.<sup>1</sup>

## AID Does Not Control Use of All Foreign Assistance Program Funding

During fiscal year 1991, AID obligated approximately \$7.3 billion and administered an additional \$1.1 billion in food assistance. At the end of fiscal year 1991, AID also had \$9 billion in the funding pipeline (\$4.9 billion from fiscal year 1991 and \$4.1 billion from prior years)—that is, unspent obligations. The size of the pipeline is important because, among other things, it can be an indicator of management problems in delivering timely and effective economic assistance.<sup>2</sup>

While AID administers a variety of foreign economic assistance programs (see table 1.1), it does not have complete control over the use of funds budgeted for this assistance; nevertheless, it is responsible for administering the funds and programs overseas. For example, funds for two programs that AID administers—economic support funds and food assistance—are not directly appropriated to AID, but rather to the

<sup>1</sup>Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, Apr. 3, 1992).

<sup>2</sup>Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

**Chapter 1  
Introduction**

President and to the U.S. Department of Agriculture, respectively. Moreover, Congress distributes approximately 90 percent of economic support funds to specific countries through certain legislative directives, commonly referred to as "earmarks," and the Department of State allocates the remaining 10 percent. Congress also earmarks certain amounts of development assistance funds be used for certain purposes, such as health, population planning, and child survival, and requires that some funds (over \$99 million in fiscal year 1991) be used to finance the projects and programs of other organizations, such as the World Health Organization and international research centers.

**Table 1.1: Major Programs Administered by AID (Fiscal Year 1991)**

<b>Program</b>	<b>Description</b>	<b>Fiscal year 1991 obligations</b>	<b>Appropriated to</b>
Economic Support Fund	To provide commodity import program grants or loans for the importation of specific categories of commodities; cash transfers for specific economic purposes, such as U.S. political commitments to Egypt and Israel, access to overseas bases, balance-of-payments, and sector assistance; and project assistance.	\$4.1 billion	The President and allocated by the State Department
Development Assistance Programs <sup>a</sup>	To provide funds to be used to implement bilateral projects. The annual foreign assistance appropriations act establishes the amount of development assistance funds that can be used to finance projects in specific activities (functional account requirements). The major functional accounts are agriculture, rural development, and nutrition; population planning; health; child survival; acquired immune deficiency syndrome prevention and control; education and human resources development; and private sector, environment, and energy.	\$1.4 billion	AID
Development Fund for Africa	To provide programming flexibility by establishing a single development assistance account for Africa with spending targets reflecting congressional interest in education, health, population and natural resource management, rather than specific functional account requirements.	\$811 million	AID
Special Assistance Initiatives	To provide funding for extraordinary economic assistance in developing countries. These funds have been used to finance U.S. contributions to the Philippines Multilateral Assistance Initiative and to support the democratic evolution in Eastern Europe.	\$449 million	AID
Public Law 480 (titles II and III)	To provide U.S. agricultural products for developing countries through donations.	\$1.1 billion	U.S. Department of Agriculture

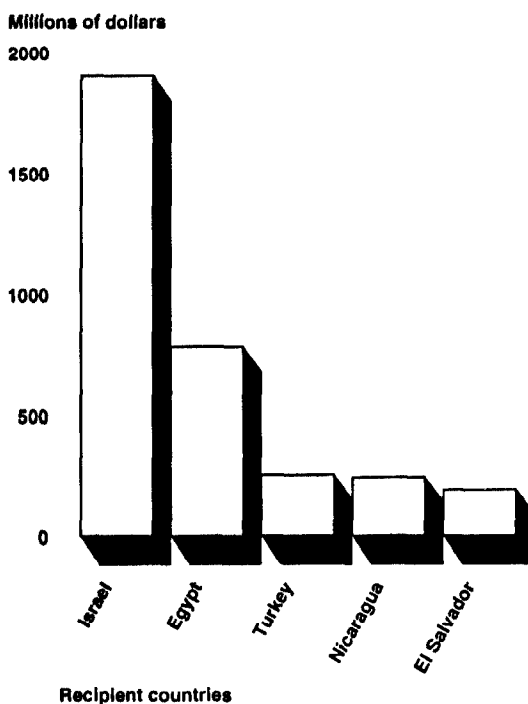
<sup>a</sup>Excluded from the analysis are other development assistance obligations totaling approximately \$619 million. These obligations will be used for such activities as the Sahel program, guaranties, American schools and hospitals abroad, international disaster assistance, humanitarian relief, operating expenses, and employee retirement benefits.

For fiscal year 1991, the level of funding for international programs not funded nor administered by AID included military assistance (\$4.7 billion), conduct of foreign affairs (\$3.2 billion), the Peace Corps (\$186 million), and refugee assistance (\$561 million).

### Majority of Assistance Has Political Purposes

The majority of AID funds are for economic support, with Israel and Egypt being the leading recipients. U.S. assistance to these two countries is based largely upon their continued participation in the Camp David Accords and upon the Egyptian-Israeli peace treaty. Other leading recipients, such as Turkey and El Salvador, received assistance in large part for national security reasons or to assist in the process of political and economic realignment. Figure 1.1 shows the amount of assistance the top five recipients received in fiscal year 1991.

Figure 1.1: Leading Recipients of U.S. Foreign Economic Assistance (Fiscal Year 1991)



Note: In fiscal year 1991, Israel and Turkey received an additional \$600 million and \$175 million, respectively, for their support of the Persian Gulf War. Fiscal year 1991 also was the first full year of a new multimillion dollar program in Nicaragua.



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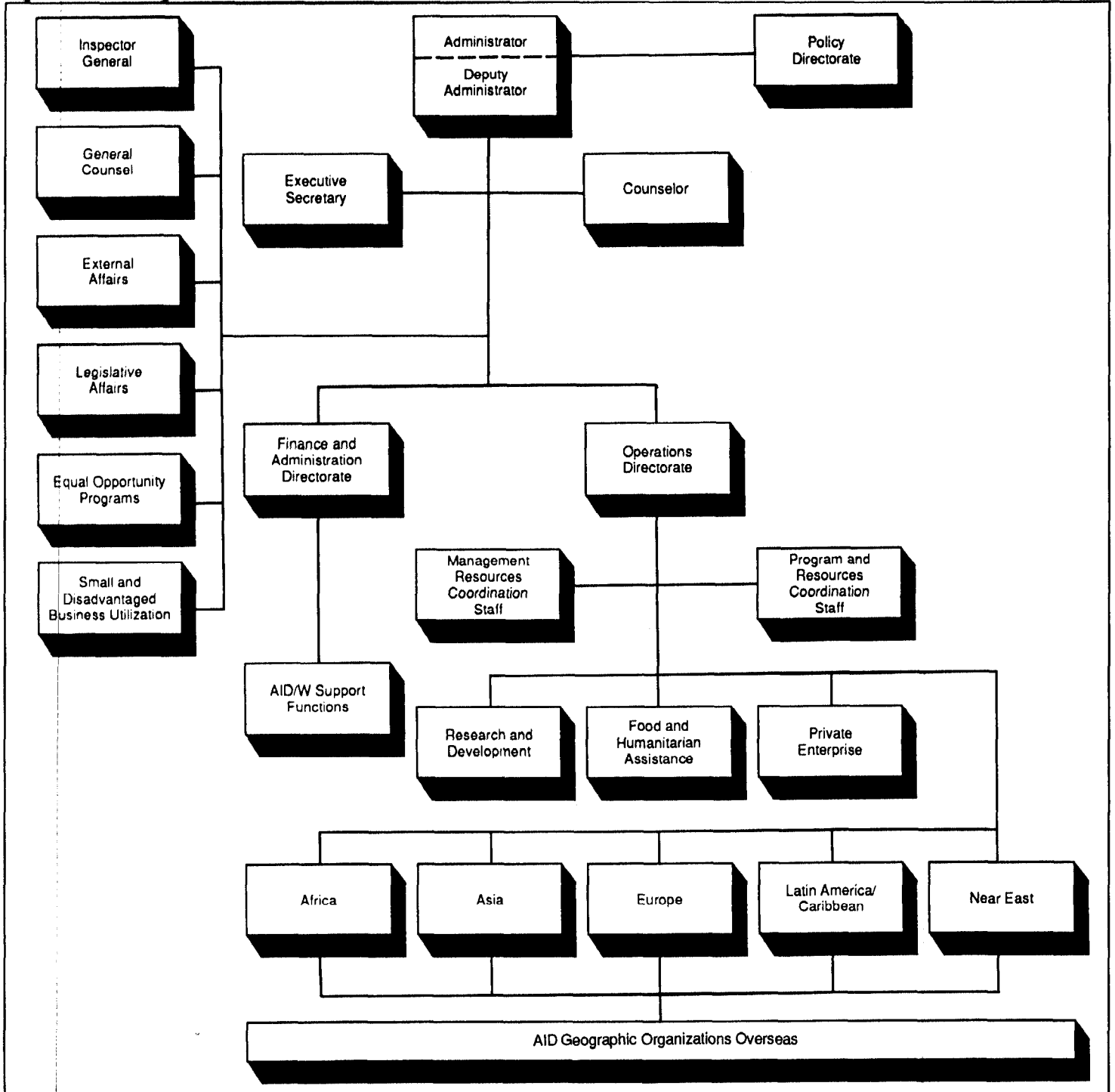
Although 80 percent of economic support funds were concentrated in these five countries, only El Salvador was also among the top recipients of bilateral development assistance or food aid. The top five recipients of development assistance (Indonesia, El Salvador, Malawi, Mozambique, and Bangladesh) received 13 percent of such assistance, and the top five recipients of bilateral food aid (India, Bangladesh, Peru, Ethiopia, and Sri Lanka) received 34 percent of the total.

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### **AID's Organization Is Highly Decentralized**

AID administers foreign assistance through a highly decentralized organizational structure, with a headquarters staff in Washington, D.C., (AID/W) and overseas missions and offices spread around the world. The AID Administrator realigned AID/W and created new offices in 1991. The new organizational structure, shown in figure 1.2, reduced the number of units reporting directly to the Office of the Administrator from 17 to 11, and, among other things, was intended to enhance AID's accountability for developmental activities.

Figure 1.2: AID Organizational Structure



The reorganization did not affect AID's overseas structure, which has remained essentially unchanged over the last 30 years. Overseas offices include organizations providing country-specific assistance—48 missions, 30 offices of AID representatives, and a section of one embassy—as well as offices that administer multi-country assistance programs or provide regional, liaison, and administrative support, such as Inspector General audits and donor coordination. Of the approximately 1,700 active projects in fiscal year 1991, the majority were administered by overseas missions or offices, but some were administered by different offices within AID/W.

### AID's Work Force Is Diverse

AID uses a variety of employment approaches to sustain its work force, which performs jobs ranging from program and project management to clerical support. In 1992, AID had a work force<sup>3</sup> of approximately 10,627 persons, including U.S. direct hires (civil and foreign service employees), foreign national direct hires, and U.S. and foreign nationals working under personal services contracts.<sup>4</sup>

Other individuals, who are not directly employed by AID, also perform a wide range of services in support of the agency's programs. These individuals include employees of institutional or services contractors, private voluntary organizations, grantees, or other U.S. government agencies. AID estimated that this extended work force numbered approximately 10,000 as of February 1991.

### Emphasis on Objectives Has Shifted Since the Agency Was Created

The U.S. economic assistance program attempts to serve a wide range of objectives: political, economic, commercial, security, developmental, and humanitarian. Over the last 30 years, the emphasis on particular objectives has shifted with changing circumstances and developmental theories; however, until recently, the concept that developing countries with growing economies were less vulnerable to communist influence provided the long-term political and popular support for the program.

In the 1960s, AID initially focused on key economic sectors and large-scale capital improvement projects, such as dams and roads. The popular thinking of that time was that benefits from such infrastructure projects

<sup>3</sup>AID does not have an official definition of its work force. For this report, we used the definition developed by AID's Work Force Planning Working Group, which defined the agency's work force as those who have a direct employer-employee relationship with AID.

<sup>4</sup>Personal services contractors include anyone who enters into a contract with AID for the performance of services by that individual only.

would “trickle down” through all levels of society. However, in the early 1970s it became more and more evident that, although such assistance generated economic growth, the poorest people of recipient countries had been excluded from, or were adversely affected by, the development process. Congress subsequently revised the Foreign Assistance Act in the 1970s to focus foreign economic assistance on a strategy to address the “basic human needs” of the poor, needs such as food, health care, and shelter.

Beginning in 1981, the executive branch expanded AID’s program to include the “Four Pillars” initiatives. These initiatives were aimed at (1) fostering a sound economic framework in recipient countries through policy dialogue; (2) transferring technology in such areas as biomedical research, agriculture, and family planning; (3) developing recipient institutions by focusing on decentralizing organizations and discouraging reliance on the public sector; and (4) increasing the use of the private sector in solving development problems. The Four Pillars were predicated on the idea that AID should encourage recipient countries to follow appropriate macroeconomic policies; otherwise, foreign aid might be wasted on countries that have policies impeding economic growth. In 1985, Congress modified the Foreign Assistance Act in support of these initiatives, legislatively sanctioning AID’s flexibility to provide both basic human needs projects and Four Pillars projects.

The breadth of the foreign aid program continued to expand in the late 1980s and early 1990s as the United States grappled with how to respond to a wide range of worldwide problems and the end of the Cold War. In addition to more traditional development objectives, AID was tasked with addressing emerging multidimensional and transnational issues—such as international debt, narcotics control, acquired immune deficiency syndrome (AIDS), and environmental degradation—that required new strategies and approaches. AID also began initiatives to support new democracies in Central and Eastern Europe and Nicaragua and to provide assistance to the republics of the former Soviet Union.

As the emphasis of AID’s objectives has shifted significantly in just the last few years, so too has the environment in which AID must operate. The demise of the Soviet Union and super power rivalry has eliminated an important rationale, purpose, and strategy of foreign economic assistance. The communist threat no longer provides the unifying objective of containing communism through aid to developing countries.

## Attempts to Overhaul Foreign Assistance Program Have Failed

Recognizing that the foreign economic assistance program needed to be reexamined, the House Committee on Foreign Affairs established the Hamilton-Gilman Task Force on Foreign Assistance in 1988. The Task Force found that the foreign assistance program was hamstrung by too many conflicting objectives, legislative conditions, earmarks, and bureaucratic inefficiencies. It recommended, among other things, (1) the enactment of a new International Economic Cooperation Act to replace the Foreign Assistance Act, (2) the creation of a restructured foreign aid implementing agency to replace AID, and (3) greater flexibility in implementing assistance programs. The Committee tried to incorporate the Task Force's recommendations into the 1989 foreign assistance authorization bill but was unable to gain broad-based support from the executive branch, Congress, and outside special interest groups. In 1991, the executive branch collaborated with the House of Representatives to submit a bill similar to the 1989 legislation, but it too was not acted on.

## Studies Have Identified Numerous Management Deficiencies

Congress has demanded greater accountability over AID's delivery of foreign economic assistance as allegations emerged that corrupt regimes had misused or diverted U.S. aid. Numerous internal and external studies of AID identified significant and recurring management weaknesses that increased the risk that AID funds were subject to waste, fraud, and abuse. Congressional hearings also focused on determining why known problems persisted from year to year. AID's failure to adequately address these weaknesses raised questions about its capacity to effectively manage U.S. foreign assistance at a time when dynamic changes were beginning to occur in its operating environment.

In response to these concerns, we initiated several studies of AID, including some that are part of this general management review. The AID Inspector General, as part of its oversight role, has issued numerous reports and has testified on numerous occasions on AID management. Congress in the fiscal year 1991 foreign assistance appropriations act also established the President's Commission on the Management of AID Programs. In addition, AID and the Office of Management and Budget (OMB) established a joint "Swat" team in 1992 to examine management problem areas and recommend solutions.

Our work and that of the AID Inspector General, the AID/OMB Swat team, and the President's Commission disclosed a common theme: AID's senior management had not provided the management structure—clear goals, agencywide standards, information and oversight systems, and human

resource systems—essential to effectively administer the foreign economic assistance program. We reported in March 1992 that AID lacked a clearly articulated strategic direction shared by key external and internal groups and integrated into the agency's management systems.<sup>6</sup> We also noted the persistent problems in such areas as program and project management and human resources management identified in prior reports.

The AID Inspector General has repeatedly identified long-standing serious management and accountability problems that mirror the ones we have identified. He has reported on problems in (1) the use of host country contracts, (2) accountability and control over local currencies, (3) management and control over centrally funded programs, (4) reliance upon weak and ineffectual third world financial management systems, and (5) the proliferation of AID projects.

Although the agency had taken some steps to correct these problems, the AID Inspector General remained skeptical that the problems would be corrected. For example, in his April 1992 testimony before the Subcommittee on Foreign Operations, Senate Appropriations Committee, he identified recent audits that disclosed that missions (1) had continuing problems in contracts that the Inspector General had identified 5 years ago, (2) were still disbursing funds to a host country that had not met the conditions for disbursement, and (3) were still not adhering to regulations for maintaining accountability over local currency proceeds.

In July 1992, the AID/OMB Swat team reported that many of AID's problems stemmed from the decentralization of decision-making, the failure of the agency to set standards and define responsibilities, the lack of centralized management information systems, and the absence of rigorous evaluations of AID's programs and staff.<sup>6</sup> The team concluded, among other things, that AID's (1) goals were not clear and translated into employee work plans; (2) guidance and standards for oversight of field activities were not uniform; (3) evaluations of contractor performance were not always effective with the result that contractors were not held strictly accountable for specific results; and (4) project evaluations were not based on a comprehensive, integrated system.

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<sup>6</sup>AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

<sup>6</sup>Improving Management at the Agency for International Development, OMB (July 1992).

The President's Commission focused on the multiplicity of objectives the agency is required by law to pursue.<sup>7</sup> The Commission concluded, among other things, that the executive branch, in consultation with Congress, should draft new foreign assistance legislation to reflect more accurately the mission and objectives of AID; that AID must reestablish firm management control of the agency at the top; and that AID needs to standardize management processes to make it more effective and accountable. The Commission noted that, because of AID's organizational status as a semiautonomous agency under the general policy direction of the State Department, AID was not equipped to respond with the clout and flexibility required by the rapidly changing world of the 1990s. The Commission concluded that the rationale for foreign assistance programs was to support U.S. foreign policy objectives, and it, therefore, recommended that AID be fully merged into the State Department. The Commission also recommended, among other things, that AID (1) update its training programs; (2) make the design and implementation of a work force planning system a top priority; and (3) install a performance management system that links AID's objectives, annual employee work plans, and employee evaluations.

As recently reported,<sup>8</sup> we have withheld judgment on the Commission's recommendation to merge AID into the State Department. The question of an organizational home for AID is premature until the executive and legislative branches agree on the overall purposes of U.S. assistance.

## Objectives, Scope, and Methodology

We initiated a general management review to perform a broad-based evaluation of AID's management capability and effectiveness. We issued our initial report, on the need for a strategic management system at AID, in March 1992 and a second report, profiling AID's organization, programs, and work force, in April 1992. We reported on the adequacy of the agency's information resource management systems in September 1992<sup>9</sup> and on its financial management structure, improvement initiatives, and conformance to governmentwide financial management standards in May 1993.<sup>10</sup>

<sup>7</sup>Report to the President—An Action Plan, the President's Commission on the Management of AID Programs (Apr. 16, 1992).

<sup>8</sup>Foreign Economic Assistance Issues (GAO/OCG-93-25TR, Dec. 1992).

<sup>9</sup>Information Resources Management: AID Falls Short in Key Elements of a Quality IRM Program (GAO/IMTEC-92-64, Sept. 29, 1992).

<sup>10</sup>Financial Management: Inadequate Accounting and System Development Controls in the Agency for International Development (GAO/AFMD-93-19, May 24, 1993).

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For this report, our objectives were to determine whether AID (1) has been able to effectively cope with the rapid expansion of its responsibilities, (2) has established effective management controls over its decentralized operations, and (3) has adequately managed its human resources.

We performed our work at AID/W and 11 missions and 2 regional offices in Africa, Asia, Latin America, and the Near East.<sup>11</sup> In Washington, we interviewed numerous current and former agency officials about AID management and operations. We reviewed AID's environment, history, operations, and programs by examining agency documents, budget material, consultant reports and studies, AID Inspector General reports, legislation, and congressional testimony on various aspects of the agency.

The 11 countries we visited—Bangladesh, Barbados, Ecuador, Egypt, Guatemala, Honduras, Jordan, Kenya, Niger, the Philippines, and Sri Lanka—represented a diversity of U.S. interests and program types. Bangladesh, for example, has a large traditional development assistance program with limited political objectives, whereas Egypt is a highly political program, funded by economic support funds. Ecuador and Sri Lanka were selected because they represent small to mid-sized programs. We selected Barbados because it represents a regional rather than bilateral approach to foreign assistance.

Overseas, we reviewed and analyzed mission planning, programming, and budgeting documents. To obtain a broad range of views of AID's operations in each country, we interviewed U.S. ambassadors and other senior embassy officials; mission directors; and mission employees at all organizational levels, including controllers, executive officers, U.S. direct-hire office chiefs, and foreign national project specialists. We also surveyed 53 AID overseas offices on management issues.

We performed our work from June 1991 to January 1993 in accordance with generally accepted government auditing standards. We discussed a draft of this report with agency officials and made changes to this report where appropriate. AID also provided comments on a draft of this report that are presented in their entirety in appendix III.

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<sup>11</sup>Certain European countries were covered under an earlier review. See Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).



# Diffusion of the Foreign Assistance Program Has Constrained AID Management

Over the last 30 years, the scope of the U.S. foreign assistance program and the number of countries in which it operates have grown to the extent that the program has become too diffused for AID to effectively manage. The proliferation of foreign assistance objectives is in large part due to a lack of consensus among the many groups that are concerned with AID's mission or have a stake in AID's services and resources. In particular, the program has been buffeted by the competing agenda of other federal agencies, the significant role Congress has taken in programming decisions, and the lobbying efforts of special interest groups outside the government.

AID had not articulated its strategic goals nor assumed leadership in obtaining the support of key groups, and in March 1992, we recommended that AID establish a process to articulate the strategic direction of the agency. Such a process, which AID has begun, could help AID involve key internal and external groups, articulate the goals of the foreign economic assistance program, and incorporate these goals into its operations.

## Proliferation of Objectives and Overseas Offices Spreads Resources Too Thin

AID's resources are allocated among too many objectives and countries to be effective in addressing all of them. Executive branch officials and Members of Congress concur that stretching AID's resources has impaired its effectiveness and reduced accountability. However, according to the AID Administrator, at the time of our review the executive branch and Congress had not reached agreement either to increase AID's human and financial resources or to reduce the scope and number of its activities. For example, AID recently added programs in Central and Eastern Europe and 12 of the newly independent states of the former Soviet Union with essentially no increase in overall program or staff resources.

## Multiple Objectives Dilute the Foreign Economic Assistance Program

The Foreign Assistance Act of 1961 has been amended over the years and it now contains more than 30 separate objectives covering a wide range of assistance activities. These objectives include promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses. (See app. I for a list of objectives.) The statutory mandates have been augmented by other congressional directives and by new programs introduced by successive AID Administrators, resulting in a complicated set of objectives with no clear priorities.

Numerous studies have shown that AID has not effectively managed the wide-ranging foreign assistance program. We reported in 1988 that having so many objectives made it more difficult to hold AID accountable for achieving any particular objective and contributed to a lack of consensus between Congress and the executive branch on program priorities.<sup>1</sup> In 1989, the Hamilton-Gilman Task Force found that the objectives of the Foreign Assistance Act were so numerous that they did not provide meaningful direction and could not be effectively implemented. More recently, the President's Commission on the Management of AID Programs suggested that many of AID's management problems stemmed from confusion over policy.

AID's overseas offices have struggled with responding to the multiple objectives. For example, the Regional Development Office/Caribbean in Barbados, in trying to address the Latin America and the Caribbean Bureau's strategic objectives, developed a strategy to respond to 14 subobjectives. With only a \$21 million budget for fiscal year 1991, the overall focus of the program is fragmented; in essence, the regional mission was trying to do a little bit of everything. The office director agreed with this assessment and told us the office would attempt to realign its portfolio around more focused objectives.

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**Proliferation of Overseas  
Offices Diffuses Program  
Impact**

AID has rapidly expanded its operations since the collapse of communism in Central and Eastern Europe and the former Soviet Union, increasing the number of overseas offices from 78 in 1987 to a projected 105 in 1993. The size of its bilateral programs varies considerably from country to country, with most programs being relatively small (see fig. 2.1).

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

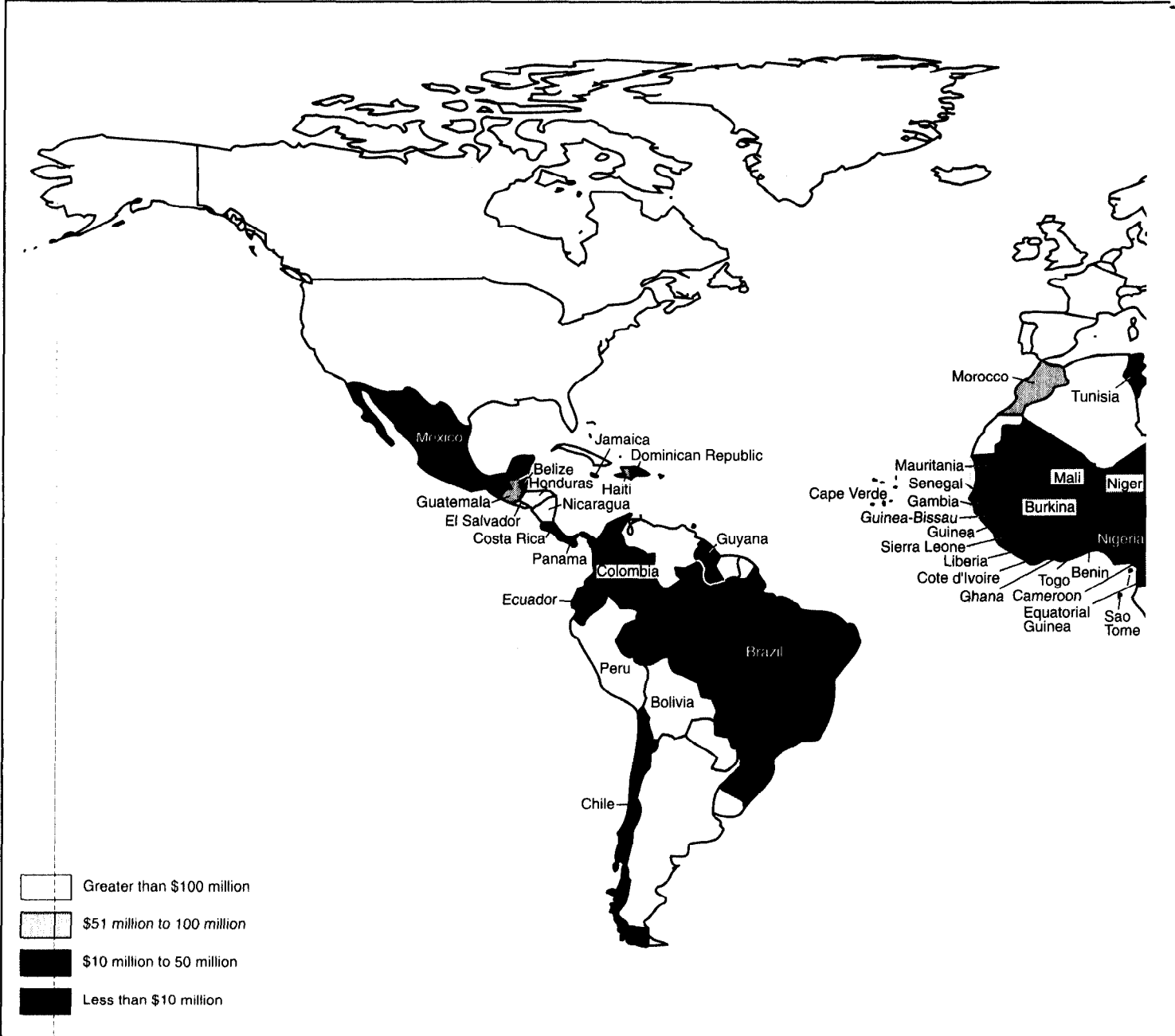
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**Chapter 2**  
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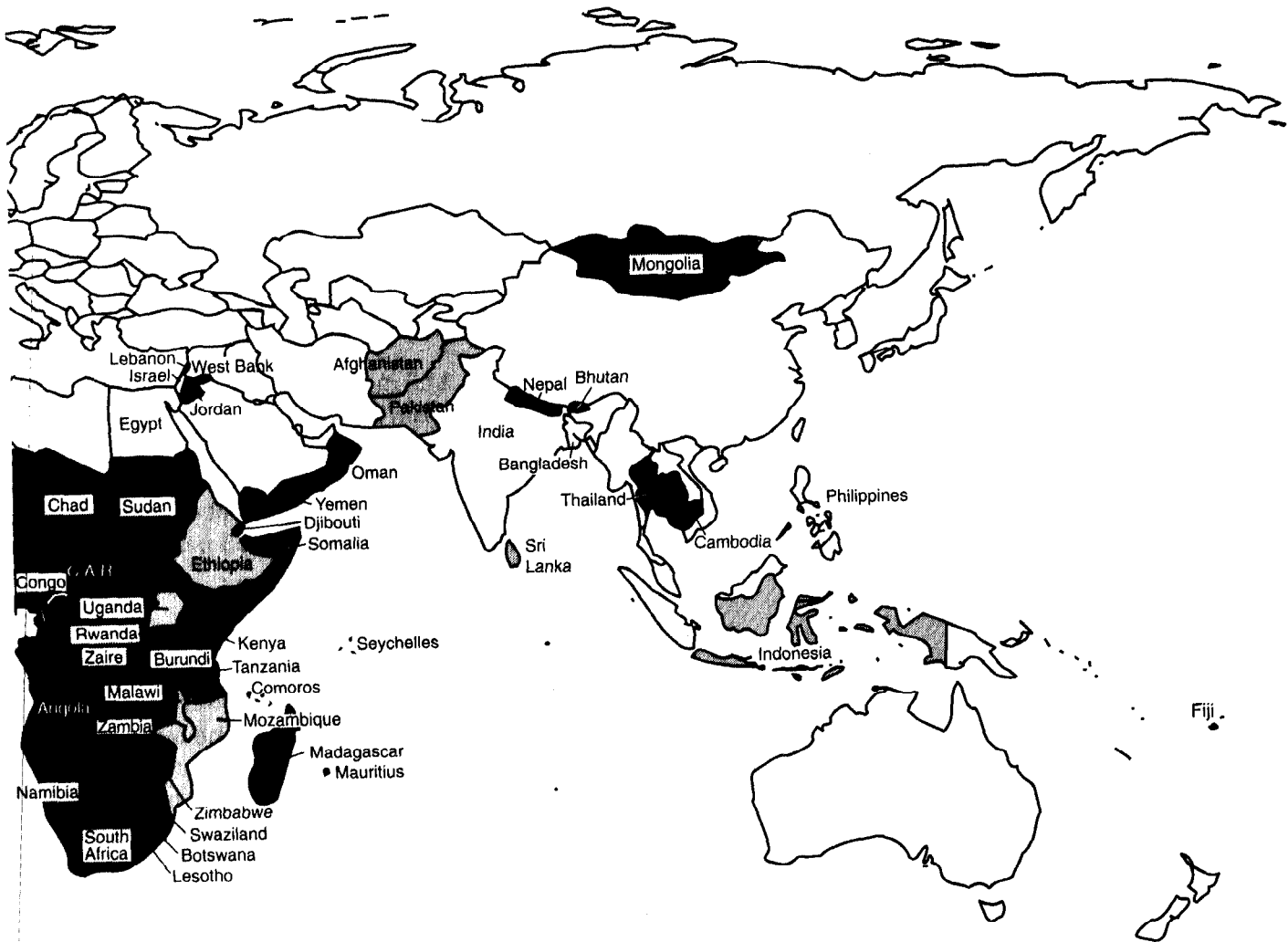
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**Chapter 2**  
**Diffusion of the Foreign Assistance Program**  
**Has Constrained AID Management**

**Figure 2.1: Obligations by Country (Fiscal Year 1991)**



**Chapter 2**  
**Diffusion of the Foreign Assistance Program**  
**Has Constrained AID Management**



Notes: Obligations totaled \$403 million for Central and Eastern European countries and \$105 million for the newly independent states of the former Soviet Union. Other countries not listed do not receive U.S. bilateral foreign aid.

World map as of February 1992.

Senior agency officials acknowledge that development assistance may be spread among too many countries to produce tangible development results. In cases where other donors are already addressing the key economic reforms needed in a country, a small U.S. assistance program may add little more than providing a U.S. presence. For example, AID ranks sixth among foreign donors in Cameroon, and France, the largest bilateral donor there, has a much greater influence on how the economy functions than do other bilateral donors. France controls Cameroon's currency exchange rate and, along with the World Bank and the International Monetary Fund, is the primary outside influence on overall economic policy. AID officials have recognized that they have limited influence in addressing these economic problems and have focused their resources on narrower issues such as encouraging sector-specific reform.

To further illustrate, AID obligated \$4.5 million in fiscal year 1991 for the bilateral program in Burkina Faso. With this \$4.5 million, combined with \$8 million in the funding pipeline, AID planned to address food security, environmental degradation, rural incomes, human immunodeficiency virus AIDS (HIV/AIDS), family planning, child survival, diarrheal disease, and nutrition training. AID, however, provided only about 3 percent of total international donor funding to Burkina Faso.

According to AID, it needs its extensive in-country presence so that it can (1) respond appropriately to local conditions, (2) work closely with foreign government and private sector officials, (3) better plan and design assistance projects, (4) provide continuous on-the-scene oversight, and (5) coordinate with other international donors. In October 1992, AID published an assessment of its in-country presence,<sup>2</sup> but the assessment did not include a cost-benefit analysis of AID's decentralized operations in relation to other approaches, such as regional or Washington, D.C.-based.

The advantages to an in-country presence may be significant, but executive branch officials and others have questioned whether AID can continue to afford its traditional overseas structure with an expanding number of recipient countries. One AID study reported that switching from a regional, Washington-based program for Central and Eastern Europe—a current organizational experiment—to traditional country-specific programs administered by individual missions would increase annual operating expenses by \$30 million to \$40 million.<sup>3</sup> Moreover, AID has advised us that this Washington-based program for Central and Eastern

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<sup>2</sup>AID's In-Country Presence: An Assessment, AID (Oct. 1992).

<sup>3</sup>Organization and Staffing Study of the Bureau for Europe, AID (July 1992).

Europe resulted in enhanced efficacy, demonstrated by the speed in which staff designed and delivered projects—less than one half the time of average AID projects—and expended funds.

Spreading programs among so many countries can also diffuse the impact of U.S. assistance. For example, we reported that AID's response to the HIV/AIDS disease in developing countries was not targeted for optimal impact.<sup>4</sup> Since 1987, the initial HIV/AIDS program supported 650 separate activities in 76 countries. Acknowledging that its resources were spread too thinly, as well as other problems with the HIV/AIDS program, the agency redesigned this program in 1992 to focus on about 10 to 15 priority countries.

## AID's Program Is Shaped by Other Executive Branch Agencies

AID has had to address the sometimes competing objectives of other agencies. The State Department and OMB, in particular, exercise significant decision-making control over the scope of AID's activities and the resources the agency has to manage them.

As we previously reported,<sup>5</sup> AID officials would like to consolidate the management of some of its country programs on a regional basis and close associated overseas offices. However, the State Department frequently has not authorized closure of AID's overseas offices because such action might be misinterpreted by the host country and subsequently damage bilateral relationships. AID's Africa Bureau, for example, considered closing a number of small offices but did not do so because the State Department and some congressional members objected. AID did close offices in the Central African Republic and Mauritania, but only after protracted negotiations with the State Department.

As another example of the State Department's authority, ambassadors, ministers, or charge d'affaires are responsible for determining the appropriate number of U.S. government personnel to be assigned to their overseas post. The U.S. Ambassador to the Philippines, for example, limited the number of U.S. personnel, including AID staff, working in the country for security reasons. Thus, in fiscal year 1991, AID had to implement a \$360 million program with only 42 U.S. direct-hire staff

<sup>4</sup>Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-244, June 19, 1992).

<sup>5</sup>Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, Apr. 3, 1992).

in-country. According to a senior mission official, staff members were overburdened and worked a great deal of overtime.

OMB also has exercised great influence over AID's operations by controlling staff levels and operating budgets. OMB, for instance, establishes the number of direct-hire staff-years that AID is authorized to fund in a given year. OMB officials have stated that AID must present creditable justifications for increased operating expense levels before OMB will support these increases. To date, when requesting such increases, AID has not been able to satisfy OMB that its requests were adequately justified.

AID's traditional role as the lead agency for administering U.S. economic assistance has been eroded, and other agencies—such as the Departments of State, the Treasury, and Commerce and the Environmental Protection Agency—have begun to take the lead in implementing specific new programs. For instance, in a 1991 report on assistance to Central and Eastern Europe,<sup>6</sup> we noted that the State Department had taken the lead in managing this assistance effort. While more than 15 U.S. government agencies and other entities were involved, AID's role was unclear. A similar number of agencies is involved in providing assistance to the republics of the former Soviet Union; AID's role in managing this effort is again ill-defined. In Latin America, the Treasury Department took the lead in implementing the Enterprise for the Americas Initiative, and AID found itself taking a secondary and poorly defined role. According to AID officials, the agency should play a significant role in the various new programs, but it is unable to do so as presently constituted.

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## **Congress Has Increased Its Role in Programming Decisions**

Congress has become increasingly frustrated with the management and focus of the foreign aid program—so much so that through legislative directives it now plays a significant role in programming decisions and takes an active role in AID's activities to ensure that its intentions are met. According to agency officials, the extensive congressional involvement has added to the diffusion of foreign aid activities and programs and hampered their ability to effectively manage them. For example, these officials cite congressional directives as having limited their ability to target assistance to what they believe are the most pressing development needs of recipient countries.

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<sup>6</sup>Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991).



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**Policy Differences Exist  
Between Congress and the  
Executive Branch**

Some policy differences are inherent in the federal system of checks and balances. However, the extent of such differences was highlighted in the 1980s by congressional and executive branch debates over how much emphasis AID should place on the various objectives of the foreign economic assistance program. The unresolved policy divergence led to deep mistrust between the two branches of government. Representative Lee Hamilton, Co-Chairman of the Hamilton-Gilman Task Force on Foreign Assistance, commented:

*"The Congress often feels that the executive branch does not always execute the law. On its part, the executive branch often sees the Congress as an adversary, not as a partner, and doubts its intentions and motivations. Congress is often criticized for micromanagement of the foreign aid program. That micromanagement is a symptom of the lack of confidence [of the Congress in the executive branch]. But that micromanagement often comes about because Congress thinks the law has not been appropriately administered by the executive branch."*

Congress uses various mechanisms in trying to ensure that the executive branch appropriately administers the law. It has funded development assistance by specific sectors, earmarked economic support funds for certain countries, and established budgetary set-asides for specific organizations. For example, a senior AID official stated that Congress had earmarked 81 percent of AID's development assistance funding for fiscal year 1993, a level 16-percent higher than AID had planned and 25 percent greater than in fiscal year 1992. According to AID, coupling a \$330 million reduction in the overall program accounts from the requested level with an increase of more than \$694 million in earmarked funds will result in a \$1 billion reduction in other planned programs. Consequently, many of AID's plans are being scrapped in order to quickly shift over to earmarked programs.

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**Funding Allocations Often  
Conflict With Mission's  
Program Goals**

Congress designated certain minimum percentages of the development assistance appropriation for specific functions to ensure that the funds were used for particular sectors Congress considered important. Until 1992, these funds were appropriated through functional accounts, that included agriculture, rural development, and nutrition; population planning; health; child survival; AIDS prevention and control; education and human resources development; and the private sector, environment, and energy. AID divided the responsibility for obligating funds by functional account among its geographic bureaus. The bureaus, in turn, provided

funding to their overseas missions and offices, that, in turn, were expected to obligate all the funds allocated to each account.

In 1992, Congress eliminated many functional accounts, replacing them with earmarks that require AID to spend money in certain areas. AID officials consider the earmarks less of an administrative burden and more flexible than functional accounts, but they said that the earmarks still strongly influence programming decisions.

Our work has indicated the types of operational problems that result when the budget process becomes the main vehicle for addressing policy differences between the executive and legislative branches. In some instances, we found that the amount provided to an individual overseas mission might be more than it could effectively use. For example, the Guatemala mission designed a child survival project to immunize children at a cost of \$3 million. However, AID/W designated Guatemala a priority country for child survival projects and provided \$16 million to the mission. Mission officials did not want the additional funding because it could not be managed properly but AID/W required that the mission obligate the funds. The Guatemalan government mismanaged the project, and AID subsequently suspended it after an audit indicated that the Guatemalan government could not account for \$1 million in project funds.

Our review also indicated that the budgeting process sometimes created a set of country objectives that were inconsistent with those established by the missions themselves. With guidance and approval from its geographic bureau, each mission identifies the development needs of the recipient country and devises a strategy for addressing them. The documents prepared as a result of this process become the implementation framework for the strategy. However, the development strategy described in these documents was not always consistent with functional account allocations, forcing the mission to alter its planned projects. As one mission director told us, AID's annual budget process charts a mission's course because a mission's project portfolio often reflects AID's need to meet earmarks or functional account funding levels.

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**Congress and the  
Executive Branch  
Cooperated on  
Development Fund for  
Africa Program**

While the legislative and executive branches have frequently held divergent views about the appropriate emphasis of foreign assistance programs and the degree of flexibility and autonomy AID should have in pursuing specific goals and objectives, Congress and AID have worked together effectively when their views have converged. The most prominent

example was the creation of the Development Fund for Africa (DFA) in 1987 to provide an "assured and stable source of funding for Africa." The DFA legislation established a separate, unearmarked appropriation for development assistance for Africa, the hallmark of which was the flexibility given to AID to use the funds to carry out any development assistance activity consistent with the Foreign Assistance Act.

DFA legislation specified a variety of policies that AID should pursue to promote "long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant." These policies emphasized (1) concentrating DFA resources in selected African countries that had demonstrated a willingness to undertake economic policy reforms or basic structural adjustments; (2) focusing on critical sectors within those countries; (3) encouraging host government policy reforms while continuing to provide project assistance; (4) addressing the social and environmental effects of development; (5) integrating food aid with development assistance; and (6) cooperating with host government agencies, bilateral and multilateral donors, and nongovernmental organizations involved in development assistance.

In April 1991, we reported that the absence of functional accounts for Africa had improved project planning and implementation.<sup>7</sup> AID headquarters and field officials stated that the absence of functional accounts for Africa had improved the agency's ability to plan assistance based on a country's specific development needs, undistorted by functional account levels. According to these officials, DFA had given them increased latitude to analyze a country's problems and devise an appropriate country development strategy that considers the host government's policies, other donor activities, and AID's track record in specific types of activities and projects. They also stated that the absence of functional accounts had facilitated AID's participation in "cross-sectoral" projects—that is, projects that encompass efforts in more than one functional area, such as family planning, health, and education.<sup>8</sup>

<sup>7</sup>Foreign Assistance: Progress in Implementing the Development Fund for Africa (GAO/NSIAD-91-127, Apr. 16, 1991).

<sup>8</sup>While DFA was not subject to functional accounts, DFA does specify three spending targets. AID should target the equivalent of 30 percent of DFA funds—10 percent each for (1) renewable natural resources, which increase agricultural production; (2) health activities; and (3) voluntary family planning. Congress later added a spending target for education.

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**Size and Political Nature of  
the Egypt Program  
Presents Particular  
Management Difficulties**

Our review indicated that managing foreign assistance provided to Egypt has presented special difficulties for AID because of the program's magnitude and political nature. As discussed in chapter 1, Egypt is the second leading recipient of U.S. aid due to legislative earmarks of economic support funds.<sup>9</sup> Egypt received \$781 million in fiscal year 1991 regardless of its development needs or the ability of the mission to effectively program the funds.

Mission officials said that in trying to spend such large amounts of money, the mission undertakes projects in numerous functional sectors without concern for what AID considers the country's highest priority development needs. For example, the mission initiates infrastructure projects primarily because they most easily expend large sums of money. However, according to AID officials, infrastructure projects discourage economic policy reform and reinforce the recipient government's thinking that technical solutions alone can increase productivity. In addition, they expressed concern that Egypt may not have the resources to sustain U.S. economic assistance projects—regardless of the sector financed—after AID's funding ends.

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**Budget Set-Asides for  
Specific Organizations  
Reduce Mission Leverage**

Mission officials told us that country-specific earmarks and congressional directives to contract with specified organizations, such as universities, undermine its ability to manage the foreign aid program. For example, Barbados mission officials said that a congressional directive had reduced their leverage with a grantee on the Caribbean Law Institute project. According to mission officials, the grantee Congress selected had no obligation to work with AID officials. As a result, the mission has had little success in persuading the grantee to change the scope and implementation schedule of the project, which was behind schedule and had unspent funds totaling \$3 million. The mission notified the bureau of the problems but continued to fund the project.

Mission officials in Egypt said that the Egyptian government has little incentive to make policy reforms because it is assured of receiving the full funding amount. AID's 1987 Country Development Strategy Statement for Egypt and the 1989 update supported a strong economic reform program. However, the mission's planning of programs and projects has not focused on economic development and increases in productivity because the

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<sup>9</sup>The program for Israel, the leading recipient of U.S. aid, is an annual cash transfer used for repayment of U.S. debt—not development-related projects.

Egyptian government has been reluctant to undertake the needed economic reforms.

## Interest Groups' Lobbying Efforts Influence AID Programming

Special interest groups outside the U.S. government are able to exert significant influence over the foreign aid program through lobbying efforts in Congress. These special interest groups, which include businesses, private voluntary organizations, cooperatives, and for-profit contractors, compete for a share of AID's budget by soliciting congressional sponsorship. They also follow congressional actions closely to ensure that specific earmarks are maintained and legislative directives meet their special concerns.

The economic stakes involved for these groups can be significant. For instance, about 270 U.S. private voluntary organizations are registered with AID and are eligible for development assistance funding in the form of grants, contracts, U.S. government-owned property, ocean freight subsidies, and commodities for distribution to the needy. Of the \$7.3 billion that AID obligated in fiscal year 1991, approximately \$956 million was obligated for grants and cooperative agreements and \$1.35 billion was obligated for contracts.

AID does not have a broad-based domestic constituency to counter the demands of these special interests, nor does it have the resources to meet all the demands. Of the missions we visited, the most intense pressure exerted by U.S. special interest groups was for capital projects in Egypt. Mission officials in Egypt provided the following examples:

- After the mission announced its intention to phase out a public sector commodity import program, the Egyptian government decided that it would not purchase U.S. coal beyond the \$25 million of coal it had already bought. Subsequently, the U.S. Coal Producers Association lobbied Congress to ask the Egyptian government to continue buying U.S. coal. After receiving letters from Members of Congress questioning the decision to phase out the commodity import program, the mission decided to continue the program.
- The mission had discontinued telecommunications projects and was trying to encourage Egypt to move into commercial financing for such projects. But after several Members of Congress wrote to the mission (1) outlining constituents' concern about the adverse impact of the decision on their businesses and (2) asking that the mission begin another telecommunications project, AID decided to spend \$50 million on

telecommunications in Egypt and awarded a contract to American Telephone and Telegraph. Mission officials said they were confused as to why the project was initiated and said it was not one that they had planned.

- The mission and the Near East Bureau reversed their decision to terminate a project linking U.S. and Egyptian universities after representatives of U.S. universities contacted an influential Member of Congress, who then informed the mission that the project was important to him.

## AID's Attempt at Defining Agency Goals Did Not Include Overseas Offices' Involvement

AID has neither defined nor clearly articulated what it sees as its strategic agency goals to key groups, including its overseas missions. AID attempted to provide a focus to the foreign aid program in 1991 by emphasizing four program initiatives to guide future assistance efforts. However, the initiatives did not accomplish this objective. While AID made an effort to take into account the views of many of its key internal groups, it did not adequately consult the key players in delivering foreign aid—its overseas missions. We found that overseas missions, which have responsibility for implementing the initiatives, were highly critical of them. In our March 1992 report, we recommended that the agency take an alternative approach—establishing a strategic management process. AID agreed with this recommendation and has begun to act on it.

## Missions Are Critical of Program Initiatives

The four program initiatives—family and development, democracy, partnership for business and development, and environment—addressed what AID saw as the important development issues of the 1990s. The AID Administrator said that many AID officials were consulted about the initiatives. However, many mission officials with whom we spoke were confused by the initiatives or severely criticized them. They said the initiatives were formulated without their input, in contrast with the traditional “bottom up” approach AID had used in the past, and were inconsistent with their views of recipient countries' development needs.

Although AID officials in Washington, D.C., said the initiatives were not meant to add another layer of objectives, mission officials questioned whether the initiatives represented a fundamental shift in development policy. They were particularly critical of the family and development initiative, which they said could be construed as an attempt to terminate family planning projects. In addition, officials at the Egypt, Jordan, Bangladesh, and Ecuador missions said the partnership for business and development initiative appeared to put AID in the position of promoting

U.S. business interests overseas. In the past, this had been the role of the Department of Commerce's Foreign Commercial Service. Mission officials said that by promoting U.S. business interests, they could hurt relations with recipient countries and lose credibility in trying to promote development strategies. They also said the democracy initiative could hurt relations with some countries by unnecessarily politicizing the agency's development efforts.

According to some mission officials, the initiatives could draw AID's attention and resources away from development areas in which the agency has expertise and a comparative advantage over other donors. Although the mission in Kenya supports the democracy initiative, the mission director expressed concern that increased emphasis in this sector could strain an already overburdened staff or cause the mission to reduce or eliminate work in other sectors. Senior mission officials in Bangladesh and Egypt questioned why the initiatives did not mention the agriculture sector since agriculture is one of the most important sectors in many developing countries. Further, although basic human needs had been a linchpin of AID development for years, Bangladesh mission officials expressed concern that it was not explicitly mentioned in the initiatives.

### **Missions Repackaging Existing Projects to Fit the Initiatives**

Mission officials said the initiatives have done little to provide a focus for the foreign aid program. Some missions already had programs and projects that fit under the initiatives, usually in response to their bureaus' objectives. For example, the Philippines mission had shifted its development approach to private sector development in response to the Asia and Near East Bureau's emphasis on encouraging open markets. However, mission officials said they felt the need to align their portfolios around the initiatives because they thought funding would be available in the areas emphasized by the initiatives.

Therefore, some missions repackaged or expected to repackage existing projects to fit the initiatives. For example:

- The Barbados office previously called the rebuilding of courthouses an infrastructure sector project but now labels it a response to the democracy initiative. The office is also placing its drug awareness work under the democracy initiative, asserting that drugs undermine democratic institutions.
- The Ecuador mission previously called the purchase of textbooks an education and training sector project but now calls it a response to the

democracy initiative, saying that informed people are more likely to support democracy.

- The Jordan mission was considering reclassifying a grouping of water projects from the infrastructure sector to the environment initiative. The mission considered them valuable projects and felt that reclassifying them under the environment initiative would ensure continued AID/W support for them.

## Strategic Management Offers a More Effective Process for Focusing the Agency's Goals

In our March 1992 report on AID management, we recommended a model for strategic management that could help enhance the agency's capacity to manage changes by focusing senior management attention on identifying and resolving key issues. The first three stages of the model are (1) obtaining the support of key groups for the strategic management process, (2) scanning the environment to identify and analyze strategic issues and support decision-making throughout the process, and (3) articulating AID's strategic direction. (The model is discussed in more detail in app. II.) We had concluded that implementing this model would help AID achieve more agreement among key internal and external groups on the appropriate goals of foreign aid and provide a framework for addressing these goals through AID's program.

AID agreed with this recommendation and has taken some steps to identify and resolve key issues. It has made progress in identifying stakeholders and other groups concerned with AID's mission. AID has met with over 40 of these groups and intends to use these discussions as an analytical framework for determining how AID should focus its program to meet emerging global challenges. AID officials said that summarized results of these meetings should assist the new administration and Congress in formulating key foreign aid policy directions. AID's Policy Directorate also has launched an "Opportunities Exercise" that involves an investigation of performance, progress, and prospects with respect to 10 key dimensions of development—to identify the key development challenges and opportunities that face the development community, including AID, over the next decade and beyond.



## Conclusions

Although exceptions exist,<sup>10</sup> overall AID has not been managing effectively its foreign aid programs. The agency has not adapted adequately to the rapidly changing environment in recent years. Its resources are spread across more than 30 objectives and among too many countries to be effective. At some missions, the programs are so diffused that they have had little impact.

AID has not been able to reach agreement on policy direction and program priorities amidst the competing pressures exerted by the wide range of groups that are concerned with its mission or have a stake in its services or resources. Congress has reacted by using various mechanisms, such as earmarking development assistance funds for specific sectors and earmarking economic support funds for certain countries to ensure its most important objectives are pursued. These and other directives have further eroded AID's control over the foreign assistance program and complicated management of the program. Within the executive branch, AID has been unable to effectively balance its objectives, with those of OMB and the State Department. In addition, special interest groups have exerted a significant influence on U.S. economic assistance programs in some cases.

AID's missions are struggling to carry out what, to many of them, appear to be incoherent and often contradictory programs and initiatives. AID/W requires them to engage in a rigorous planning and programming process to establish what their host countries' most pressing development needs are, but they often end up trying to make their programs somehow fit into the latest objectives and spending goals coming out of AID/W.

Some policy differences between the executive and legislative branches of government are inherent in our political system. However, unresolved policy divergence over the relative emphasis that should be given to various objectives of the U.S. foreign assistance program has led to a level of mistrust between the executive branch and Congress, which has become counter-productive.

The increasingly significant role Congress has taken in programming decisions, and the competing agenda of other government agencies and special interest groups have made reaching a workable consensus on program direction very difficult. Once a clear strategic direction for

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<sup>10</sup>See Foreign Disaster Assistance: AID Has Been Responsive, but Improvements Can Be Made (GAO/NSIAD-93-21, Oct. 26, 1992). The Office of U.S. Foreign Disaster Assistance has been generally responsive to both quick-onset and long-term disasters. The effectiveness of the Office is due largely to its programming and funding flexibility (which was authorized by Congress) and its ability to work well with international and private voluntary organizations.

foreign economic aid is articulated, AID will be in a better position to adapt the framework to select effective management strategies to achieve this direction, assign accountability, and monitor implementation progress. While AID has begun the process of involving others in trying to define a strategic direction for the agency, it has yet to institutionalize the framework to help ensure that the process transcends the tenure of successive administrators.

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## **Recommendations**

We recommend that AID play a leadership role in achieving strategic direction for the U.S. foreign assistance program by working with others in the executive branch and in Congress. As part of this process, the AID Administrator needs to develop agency objectives in support of the new strategic direction for the foreign aid program.

We also recommend that the AID Administrator determine the most appropriate organizational structure to implement the agreed upon agency objectives. In making these determinations, the AID Administrator should investigate the costs and benefits of various approaches, such as the traditional mission structure, regional offices, and the experimental headquarters-based model for Central and Eastern Europe. Regardless of the organizational structure, the AID Administrator should establish central oversight to ensure that (1) AID officials are effectively pursuing agency program objectives and (2) program and project plans for each recipient country are developed within the context of the agency's strategic direction. The AID Administrator should also ensure that the various bureaus of AID/W institutionalize the agency's strategic management framework, thus helping to ensure that it will continue beyond the tenure of one AID Administrator.

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## **Agency Comments and Our Evaluation**

In commenting on a draft of this report, AID said the agency is an active partner in an ongoing State Department examination of foreign aid objectives and organization that includes extensive collaboration with Congress, other federal departments and agencies, and external stakeholders. From this and other efforts, AID expects to develop a consensus on the goals of AID's foreign assistance program.

# AID Lacks Strong Central Controls Over Its Decentralized Operations

For years AID has done a generally poor job of coordinating, overseeing, and evaluating its programs and projects. Although the agency adopted a decentralized management philosophy and structure, it did not establish effective agencywide management controls to ensure that centralized policy direction was implemented by the bureaus and overseas offices. During the 1980s, missions gained increased decision-making authority over bilateral country programs. While some in AID intended that this shift in decision-making authority would be coupled with strong central controls to ensure accountability, the agency did not take this step. As a result, AID's decentralized operations became increasingly autonomous and fragmented.

AID has argued that a decentralized management approach is appropriate for its operations because the development and assistance needs of the countries and geographic regions in which it operates vary widely. While decentralization is an approach with some advantages, AID has not had the management information systems and other control mechanisms needed to coordinate and adequately oversee agency operations, or to ensure that policies and program objectives articulated from AID/W were implemented in the field. In other words, AID had not held bureaus, missions, and key personnel accountable for properly implementing the programs and for achieving program results.

Since 1990, AID has taken steps to build its capacity for central oversight and evaluation of its programs, and on August 31, 1992, AID submitted a management improvement plan to OMB that, along with its new information systems plan, is intended to address these problems. We believe these plans are clearly steps in the right direction, but their implementation is just beginning. Therefore, it is too early to assess whether these efforts will resolve AID's lack of consistent central management controls for ensuring accountability.

## Missions Acquired Increased Approval Authority

Because the development and assistance needs of the countries and regions AID serves vary widely, AID has generally decentralized its operations among a vast network of overseas missions. Not until the 1980s, however, were the missions given the authority to approve major projects and programs—once a key headquarters function. Several AID task forces had concluded that centralized project and program approval had been inefficient and had contributed to weaknesses in managing project and program implementation. They expected the decentralization of approval authority to enhance AID's performance because they felt

- **management's attention would shift from producing convincing paperwork for the design and approval process to managing for development results;**
- **the missions, which understood local conditions, were in a better position to make programming decisions;**
- **projects approved by headquarters were "over-designed" and responded to a multitude of special interests in Washington, D.C., rather than the needs of the recipient countries; and**
- **implementation would improve as missions felt greater ownership over mission-approved projects and programs.**

The trend toward AID's increasing decentralization of approval authority began in 1979. In that year, the AID Administrator delegated authority to the assistant administrators of the geographic bureaus to approve projects having a total value of \$10 million or less. The assistant administrators, in turn, could further delegate to their field missions the authority to approve projects having a total value of \$5 million or less. In 1985, the AID Administrator expanded delegations of authority by stating that there was no dollar limit on project approval authority for field missions, although authority to approve projects totaling over \$20 million and amended projects totaling over \$30 million would be delegated on a case-by-case basis. By 1990, approval authority for projects totaling \$20 million or less was routinely delegated to the missions.

The decentralization of approval authority increased the autonomy of the bureaus and overseas missions and dramatically altered the relationships among AID's headquarters offices, creating a management void and an organizational fragmentation. For instance, the role of the central policy bureau was diminished. During the 1970s, this bureau had defined policy and judged whether programs and projects were in compliance with overall agency goals and objectives. Although this bureau retained important functions—such as budget and economic analysis—after decentralization, its previous role as the final arbiter of mission-proposed projects had been replaced by a vague advisory function. According to an AID report, the shift in the role from arbiter to adviser left the AID Administrator without a central office to provide an effective check on the activities of the geographic and functional bureaus and missions.<sup>1</sup>

With a weakened central policy bureau, the geographic bureaus took on more authority and became increasingly independent. They developed

<sup>1</sup>As of October 1991, AID's functional bureaus were (1) Research and Development, (2) Food and Humanitarian Assistance, and (3) Private Enterprise.

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their own objectives, implementation strategies, and management systems. For example, they developed different relationships to the functional bureaus and to their field offices.

During our review, we found illustrations of the lack of agencywide policy direction and centralized oversight. For example, in response to an OMB request, AID's Policy Directorate developed a performance-based budgeting model using comparable economic indicators. However, because AID did not coordinate the efforts of the geographic bureaus, three of the five geographic bureaus added additional criteria of poverty, democracy, governance, and population size. As a result, their data were not comparable.

In another instance, AID had begun developing a management information system to measure and report on program performance.<sup>2</sup> However, AID did not develop an agencywide program or management plan defining what should be measured or set targets against which program successes could be measured. Further, among the missions we visited, the data used to measure performance were different, making meaningful comparisons difficult. For example, one mission defined infant mortality, a common health program indicator, to include children up to 3 years old, while another mission defined the indicator as all children under 18 months.

In response to the increased power and autonomy of the geographic bureaus, the functional bureaus began to develop (1) programs supported by outside constituencies and (2) central projects that provided services directly to the missions. Organizational units developed around specific issues, such as population and child survival—many of which had congressionally earmarked funding and special interest group lobbies. The functional bureaus typically conducted applied research (often by funding outside consultants and contractors), developed pilot projects, and provided technical assistance directly to the missions or recipients. Missions welcomed centrally funded technical assistance projects because they could obtain services with a minimum of administrative overhead. However, these centrally funded projects also created discord within the agency because the functional bureaus independently implemented activities without coordination with and cooperation of the geographic bureaus.

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<sup>2</sup>This Program Performance Information for Strategic Management (PRISM) system, begun in 1991, is not expected to be implemented agencywide until at least fiscal year 1994.

## AID Has Not Established Central Controls Over Its Decentralized Operations

AID had not established the strong central controls necessary to ensure that the AID Administrator could adequately oversee operations of the various elements of the agency and hold them accountable for implementing agencywide policy. Some of the controls necessary to accomplish this purpose were identified by AID early in the decentralization process; however, they were not implemented. Two AID task forces that advocated the decentralization of approval authority recognized that this process needed to be coupled with certain central controls. A 1981 task force recommended that the Administrator establish an independent senior group reporting directly to the AID Administrator to ensure that agency policies and procedures were followed and to evaluate the overall management effectiveness of the missions. In 1983, another task force recommended that AID develop an agencywide information management system to gather data on how well missions were implementing projects and programs. The AID Administrator rejected the former recommendation and failed to implement the latter.

Our work over the past several years has identified a number of instances where AID's failure to (1) develop agencywide information and management systems, (2) provide missions with meaningful guidance, and (3) ensure compliance with directives and management procedures has led to operational inefficiencies. For example:

- In September 1992, we reported that AID had no assurances that initiatives to correct long-standing information resource management deficiencies would be implemented agencywide because the agency lacked the management framework—policies, standards, structured planning process, controls, training, and budget priority—essential to support an effective information resource management program.<sup>3</sup> AID had not defined its information needs; had redundant, outdated, ineffective, and unintegrated information systems; and had not established data standards and procedures.
- In May 1991, we reported that, contrary to AID/W guidance, missions generally did not conduct assessments of host country contracting, voucher reviews, and audit capabilities before deciding to use a host country contract.<sup>4</sup>
- In January 1990, we reported that AID's policy and reporting requirements were not sufficient to ensure systematic close out and final audit of

<sup>3</sup>Information Resources Management: Initial Steps Taken, But More Improvements Needed in AID's IRM Program (GAO/IMTEC-92-64, Sept. 29, 1992).

<sup>4</sup>Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts (GAO/NSIAD-91-108, May 29, 1991).

completed contracts.<sup>6</sup> Consequently, the missions were unnecessarily vulnerable to contractors' misusing AID-financed property.

- In October 1990, we reported that, among other procurement-related problems, AID guidance did not provide agencywide standards for procurement plans or establish clear requirements for project procurement planning and that this directly contributed to inefficiencies in overseas procurement.<sup>6</sup>
- Our June 1992 report on assistance to countries trying to combat HIV/AIDS indicated that the agency had not responded as quickly as it could have to the disease because of inter-bureau turf battles.<sup>7</sup> Consequently, resources were initially spread too thin, and the agency was slow to target resources to a few priority countries where it could have the most impact.
- AID's population program had similar problems. In May 1990, we reported that 43 units within 3 geographic bureaus and 1 central bureau were implementing the population program and that no single program officer or office had overall management authority and oversight responsibility.<sup>8</sup> This led to generally fragmented program evaluations and a lack of knowledge within AID about overall program impact. AID took steps to improve this situation, but in February 1992 we reported that AID still did not use evaluation indicators uniformly to measure whether population programs accomplished agencywide program objectives.<sup>9</sup>
- In October 1992, we reported that although AID's Office of U.S. Foreign Disaster Assistance has been generally responsive to disasters, operational differences between the office and AID's regional bureaus, an outdated policy on responding to long-term disasters, and the lack of linkage between disaster relief and development activities impeded integration of these activities.<sup>10</sup> The lack of clear policy on long-term disaster assistance and changing AID roles in Africa have caused friction and disagreement between the Office of U.S. Foreign Disaster Assistance and the Africa Bureau and reduced the likelihood that disaster responses would be fully integrated with development programs.

<sup>6</sup>Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, Jan. 22, 1990).

<sup>7</sup>Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD 91-31, Oct. 5, 1990).

<sup>8</sup>Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-44, June 19, 1992).

<sup>9</sup>Foreign Assistance: AID's Population Program (GAO/NSIAD-90-112, May 1, 1990).

<sup>10</sup>Foreign Assistance: AID's Population Program Evaluations Have Improved, But Problems Remain (GAO/NSIAD-92-48, Feb. 21, 1992).

<sup>11</sup>Foreign Disaster Assistance: AID Has Been Responsive, But Improvements Can Be Made (GAO/NSIAD-93-21, Oct. 26, 1992).

- In December 1992, we reported that AID's private sector assistance had mixed success, and that AID's future orientation in this area was uncertain.<sup>11</sup> The agency's Business Partnership Initiative posits AID as a facilitator of U.S. business activity in developing countries, but AID was not well prepared to become a leader in directly advancing U.S. commercial interests abroad.

AID has taken positive actions to address many of the specific recommendations we made in the reports cited above. For example, it issued guidance and directives on host country and overseas direct contracting; issued instructions to missions on contract close-outs and final audits; consolidated its efforts to combat AIDS; and undertook a series of country studies to evaluate the impact of its population programs. These actions, individually, were clearly needed and appropriate; however, still lacking was an integrated management system that would help ensure adequate oversight by AID headquarters and effective accountability for AID's decentralized operations. AID's management improvement plan, submitted to OMB on August 31, 1992, when fully implemented is intended to address this fundamental issue.

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## Missions Have Not Been Held Accountable for Program Results

AID has not had an agencywide program evaluation system to hold bureaus, missions, or key individuals accountable for program results. We found that AID's current systems do not yet (1) define agencywide goals, (2) determine measurable factors needed to meet these goals, and (3) set targets against which progress toward agency goals can be monitored and assessed. In addition, the various systems are not coordinated into an effective agencywide system for program accountability. Further, AID does not have consistent agencywide standards for the systems and procedures used by individual geographic bureaus, making meaningful comparisons difficult. AID has begun to develop agencywide systems to increase accountability over its projects and programs. However, none of these systems are as yet implemented.

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## Project Reviews and Evaluations Do Not Measure Program Results

Missions' project officers perform quarterly or semiannual reviews to monitor project performance. The reviews are used to brief senior mission management and the geographic bureaus on the status of ongoing projects. Project evaluations, which are generally performed at the

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<sup>11</sup>Foreign Assistance: AID's Private-Sector Assistance Programs at a Crossroads (GAO/NSIAD-93-55, Dec. 11, 1992).



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mid-point and at the end of a project, are usually contracted out by missions to private concerns.

However, neither the project reviews nor evaluations determine whether the projects have met the development goals of the mission and host country. Rather, the reviews primarily identify implementation and financial problems, such as the timeliness of the projects, the rate of obligation of funds, or the status of pending litigation associated with host country or contractor inadequacies or complaints.

According to mission officials, no agencywide criteria exist to assess projects; generally, mission directors establish their own criteria to judge project performance. Even when geographic bureaus provide some criteria for evaluating projects or programs, missions do not always use it. For example, two of the three missions we visited in Asia—the Philippines and Sri Lanka missions—were aware that the bureau had provided criteria to rank projects, but even these missions used different criteria to rank their projects. The Philippines mission added additional criteria concerning human resource management and sustainability to rank its projects, criteria which were not used by the Sri Lanka mission.

Project evaluations, like project reviews, also have generally not measured program results but primarily have focused on management and implementation problems. Development Fund for Africa countries have begun to measure results. However, according to mission officials, those performing the evaluations have difficulty measuring program results because of the following:

- Missions do not have sufficient and reliable baseline data to provide an analysis of program results.
- Baseline data can be very expensive to collect, and the host country is often not interested in collecting the data.
- Program results are difficult to determine when many donors are involved or when significant external factors exist.

Evaluating program results requires a system that ties project results to mission and agencywide program goals. Typically, such a system would collect adequate baseline data to make the comparison and evaluation. The efforts at some missions, such as Ecuador, were encouraging. This mission set strategic objectives, tied sectors and projects to these objectives, and was establishing baseline data to measure project success

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against the objectives. However, such efforts were not implemented agencywide.

Recent reports by the AID/OMB Swat team and the President's Commission on the Management of AID Programs also noted that AID does not have adequate systems to hold missions accountable for program results. The AID/OMB report concluded that (1) AID had no comprehensive system to evaluate projects, (2) evaluations lacked adequate empirical evidence, and (3) AID devoted too few resources to evaluations. The Commission's report had come to some of the same conclusions and had recommended that AID develop results-oriented evaluations that include measurable objectives.

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### **Performance-Based Budgeting System Not Implemented Agencywide**

AID has begun to develop and implement a performance-based budgeting system that the agency hopes to use in making development assistance budget allocations. Once fully implemented, AID expects to use country performance indicators to measure the progress a country is making in adopting certain economic, social, and political reforms that AID, the World Bank, and other lending institutions think are critical to the success of a country. AID anticipates that the system will use an index of variables to measure a country's social, economic, and political performance and progress and then rank the country as a good, moderate, or poor performer. A country's ranking is to be used to determine development assistance funding levels, with poor performers receiving less.

AID's initial introduction of the system to the missions was not done consistently agencywide and was undertaken without much input from the missions that must use it. In those cases where individual geographic bureaus and missions attempted to implement the system, they did so without consulting other players that influence AID, such as OMB. For example, AID did not consult with OMB before determining what factors should be used in its country rankings. Mission staff spent considerable time responding to and collecting data on country program indicators, but OMB told AID that it should have developed an agencywide system based on other criteria, such as macroeconomic indicators. Consequently, much of the work done by the missions' staff was not considered as being useful.

Because AID did not adequately explain the purpose of the system to its overseas missions, the results have been confusing. Mission officials in Ecuador and Barbados told us that they thought that the system was to reward good performers with additional funding. That is, those that scored high would receive additional funding from a pool of money. On the other

hand, officials in the Office of Development Resources for the Latin America and the Caribbean Bureau told us that it is a negative reward system. That is, mission budgets are reduced for countries that are not good performers.

Officials at the missions we visited also questioned the role the system plays in program funding. Officials at the Ecuador, Barbados, Philippines, and Bangladesh missions said the system was not a useful management tool because the factors did not measure the effect of a mission's programs and projects on a country's performance. Mission officials in Ecuador and Guatemala said that the methodology used was flawed and was intentionally skewed to favor those countries that the bureau wanted to reward. Further, they said that there was no consistency between a country's performance and AID's funding levels.

Our review of funding levels and performance ranking for the countries in the Latin America and the Caribbean Bureau confirmed that there is little correlation between a country's economic, social, and political performance and AID funding levels. Officials in the Office of Development Resources for the Latin America and the Caribbean Bureau said that many other factors also affect funding levels; consequently, there is rarely a direct correlation between funding levels and performance ranking. They added that sometimes funding levels are substantially altered for political reasons.

Based upon criticism from OMB on AID's initial attempts to implement the performance-based budgeting system, AID is now developing the system taking OMB's suggested criteria into account. In August 1992, AID ranked all the countries receiving assistance, using economic indicators, and submitted it to OMB. The system now ranks all countries worldwide rather than ranking countries within geographic bureaus only. However, according to an OMB official, AID has not tied the economic performance ranking to budget allocations. That is, budget allocations to countries have not been based upon their performance. Further, AID still has not developed indicators to measure a country's performance in adopting social and political reforms.

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**Mission Directors'**  
**Performance Not Tied to**  
**Program Results**

AID has no formal or measurable system to judge a mission's performance, in particular, a mission director's performance in managing to achieve program results. A mission director's performance is evaluated using the project review systems such as the semiannual reviews and reviews of the

Country Development Strategy Statements, Action Plans, and Annual Budget Submissions. None of these systems measure program results; rather, they measure whether program and project funds are obligated on schedule and whether projects have serious management problems.

A mission director is formally evaluated by the U.S. ambassador to the country in which the mission is located, and at times, the ambassador's goals may not be consistent with the mission's objectives. For example, the mission director in the Philippines said his primary objectives were to (1) develop the country program strategy and projects that support that strategy; (2) maintain good relations with the host country, the State Department, and AID; and (3) effectively manage human resources. The mission director, however, told us that none of these objectives were addressed in his performance evaluation by the ambassador.

Mission directors are also informally evaluated by their interaction with AID officials—during conversations with country desk officers in Washington and other bureau officials and in meetings with their bureau's assistant administrators during visits to Washington. Although these systems can be used to monitor the progress of mission projects, AID cannot adequately judge a mission director's performance in managing for program results without accurate and measurable data on program results.

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**AID Has Begun to**  
**Emphasize Program**  
**Results and Evaluations**

AID has begun to take a number of actions to measure program results and strengthen the role of evaluations. As discussed previously, AID is developing the PRISM system to focus on improving program performance monitoring by strengthening mission information systems and developing agencywide program performance indicators. This will enable missions to regularly measure and report on the progress and results of their programs. The Center for Development Information and Evaluation was assigned lead responsibility for developing the system. The Center has conducted workshops for headquarters and field staff to identify the agency's major objectives and indicators to measure those objectives and has assisted missions in developing their own strategic objectives and indicators. The system currently covers 55 missions and is expected to cover all of AID's central, regional, and bilateral programs by the end of fiscal year 1994.

AID officials told us they plan to implement in 1993 a revised agencywide portfolio review system to report on individual projects. AID officials said

that this system, when combined with the PRISM system, will permit improved headquarters oversight capability of program performance.

AID has also begun to make greater use of central evaluations carried out by the Center. In addition to expanding the number of evaluations done, the Center has begun to work more closely with operating units in AID/W to consider the findings and management implications of these evaluations in programming decisions.

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## AID's Efforts to Address Organizational Control and Accountability Problems

The purpose of the 1991 reorganization of AID headquarters operations was to reduce senior management's span of control, create an internal control staff, enhance AID's leadership of and accountability for development activities, and minimize organizational redundancies. The reorganization was also designed to eliminate the bureau "mini-agencies" and instill discipline by getting AID "to speak with one voice." The newly created Policy Directorate, which includes a strategic planning unit, has begun to identify how the changes in East-West relations and other emerging global issues affect AID's mission.

According to the AID Administrator, AID is also moving forward with management improvements to improve output performance and accountability. During our review, AID had begun to focus on efforts to

- simplify the design and implementation of development programs and increase field mission responsibilities,
- strengthen the personnel evaluation and incentive system with the objective to reward sound management,
- install an integrated system of development performance measurement, and
- shorten the contracting cycle and open it up to wider competition.

Despite these management improvements, many critics continued to express skepticism of AID's ability to provide policy direction and to reform its management practices. According to a November 1991 AID report,<sup>12</sup> there was no body or unit that set the tone or standards for management reforms or that coordinated and monitored the various task forces' recommendations to ensure that they were implemented in a consistent manner or within a corporate philosophy of management. The report also noted that many offices were attempting strategic planning and management; however, strategic planning and management were not

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<sup>12</sup>Report of the Management Incentives Team, AID (Washington, D.C., Nov. 1991).

performed at the top level for the entire agency. A senior agency official told us in July 1992 that this situation still existed and that managers were still limited in the degree to which they could improve operations if direction was lacking.

Actions AID has taken since then are encouraging; for example, it has responded to the AID/OMB Swat team recommendations, and in August 1992 it developed a management improvement plan that identifies specific actions to be taken, sets target dates for their completion, and designates by name the officials responsible for carrying out specified actions. In January 1993, AID officials told us that virtually all the target dates established in that plan have been met. However, AID officials recognize that a major cultural change is required within AID for management reform to be fully effective and long-lasting.

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## Conclusions

During the 1980s, AID increasingly decentralized its operations by giving the missions increased project and program approval authority. The agency anticipated that decentralization would make its operations more efficient by moving key development decisions to mission officials who are closer to the development needs of each country. However, adequate mechanisms to ensure that agencywide policy priorities are being appropriately implemented or that desired results are being efficiently and effectively achieved have not been established.

The decentralization approach has had some negative effects that AID has not addressed. Headquarters relationships were altered so that the influence of the central policy bureau was diminished, allowing the geographic bureaus to become considerably more independent. As a result, geographic bureaus often pursued their own objectives, implementation strategies, and management systems. Functional bureaus reacted to the increased power of the geographic bureaus and the lack of central control by seeking new sources of power and influence. They sought outside support as they developed programs built around specific development issues and provided services directly to missions, bypassing the geographic bureaus.

AID has acknowledged the need for stronger centralized controls, but has not yet provided clear guidance or established such controls to better ensure that agency policies and procedures are followed. Although the PRISM system will help in gathering data on how well missions are implementing their projects and programs so that missions and officials

can be held accountable for program results, full implementation of this system is still at least a year away.

## Recommendations

We recommend that the AID Administrator use the strategic management framework to bring AID's management systems into balance with its decentralized organizational structure by

- establishing agencywide policy and procedures defining agency programming goals;
- clearly identifying who has the responsibility and authority for implementing specific agency's goals;
- developing measurable goals and objectives and tying program and project results to those goals and objectives;
- developing standardized management information systems to provide accurate, meaningful, and timely data across the agency to serve as a basis for measuring performance; and
- monitoring implementation of programs and projects and holding bureau and mission staff accountable for results.

## Agency Comments and Our Evaluation

AID agreed with our conclusions and recommendations regarding the need for stronger central policy direction and effective management controls to provide adequate accountability over its decentralized management structure and rapidly expanding operations. AID indicated that management improvement is one of the new Administrator's top priorities and that the agency needs to develop management information systems within our proposed strategic management approach to provide information required for central oversight and accountability for program results.

AID indicated it intends to completely examine its management practices, organization, and structure with a focus on improving accountability and results. In this regard, AID has proposed that the agency be designated a "reinvention lab" as part of the National Performance Review led by the Vice President.

We believe that the recent actions taken by AID and the commitment by the new Administrator to improve management has AID moving in the right direction. Further, AID's commitment to pursuing reforms using the strategic management approach should help avoid the difficulty AID has had at times in the past in sustaining management improvement efforts.

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However, as AID noted in its comments, these actions will take time to implement and the problems will not be solved overnight.



# Sustained Effort Needed for Human Resource Planning and Management Reforms

The responsibilities of AID's U.S. direct-hire staff have changed dramatically. Where once they took a hands-on role in implementing development projects, AID's U.S. direct-hire employees are now largely responsible for overseeing the work of outside parties, such as the host governments, institutional contractors, and private voluntary organizations, which have the project implementation role. However, these employees do not have all the skills needed to carry out these responsibilities. This is largely due to an approach to human resource management that has not correlated recruitment, assignment, and training efforts with shifts in services to be provided or changes of emphasis on agency objectives.

Recognizing these problems, AID's Finance and Administration Directorate recently began planning certain human resource and management reforms. These reforms, however, have not yet been integrated into a strategic management process that encompasses all activities of the agency. Furthermore, according to AID, it is uncertain whether the agency will have the resources available to implement these reforms.

## Changing Responsibilities of the Work Force

The responsibilities of AID's foreign service employees have changed since the agency was established in 1961. Throughout the 1960s, a small cadre of U.S. foreign service employees managed the majority of AID's funding, which went to large infrastructure projects and their associated contractors, while the majority of the U.S. foreign service staff provided hands-on technical expertise for development assistance in the social sectors, such as agriculture and education. During this period, staff involved with social sector assistance did everything from driving trucks to helping plant rice paddies.

The early 1970s was a transitional period for AID's programs and staff. AID's U.S. direct-hire work force decreased from about 8,600 in 1962 to about 3,400 in 1980. Legislative changes also shifted the foreign economic assistance program from large infrastructure projects to basic human needs projects addressing such areas as hunger, health deficiencies, illiteracy, and population pressures. With this programming shift, AID gradually lost contracting and management capabilities as infrastructure project managers were replaced by officers with technical skills in basic human needs activities. AID, however, could not continue with the traditional hands-on approach for the social sectors because of the overall decline in the number of U.S. foreign service staff and the shift to a predominantly basic human needs development program. Consequently, it

shifted U.S. foreign service staff responsibilities from directly implementing social sector projects to planning, financing, and monitoring the projects implemented by host countries, contractors, and grantees.

During the 1980s, mission directors became increasingly reliant on other types of employees, such as foreign national direct-hire staff and personal services contractors, to manage mission operations and development activities implemented by third parties. At all the missions we visited, day-to-day management of mission operations was largely provided by foreign national direct-hire staff and personal services contractors. For example, we found that foreign nationals were serving as deputy controller and in other key management positions. U.S. foreign service staff focused on general oversight of mission operations and programs.

We also found that, in addition to using personal services contractors and expanding the role of foreign nationals, missions used institutional contractors and grantees—individuals with whom AID does not have a direct employer-employee relationship—to monitor the activities of other contractors and grantees. AID also developed a new contracting mechanism that allows a contractor to first design and then implement projects for the agency.

Although AID has returned to being a contract-management and financing agency, it has not adapted its organizational structure or work force accordingly. U.S. foreign service staff are recruited for their technical skills but, once hired, spend a significant portion of their time overseeing third parties—a responsibility for which they have limited skills or training. Also, AID has not realigned the roles of the different components of its work force. For example, some members of AID's 1990 Work Force Planning Group suggested that the responsibilities of foreign national direct-hire staff and personal services contractors may have expanded beyond what is currently allowed under AID's regulations. However, AID has not evaluated (1) the appropriateness of current regulations, (2) whether the use of foreign national direct-hires and personal services contractors complies with those regulations, or (3) how such foreign national direct-hires or personal services contractors can be most effectively used to compensate for reduced U.S. direct-hire personnel.

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## **Work Force Lacks Needed Skills**

Overseas mission officials told us that their work force frequently does not have the skills needed to manage AID programs.

- Senior mission officials in Egypt, Jordan, and Bangladesh complained that U.S. foreign service staff lacked expertise in private-sector issues even though AID has steadily increased its programming in this area.
- Senior mission officials in Jordan noted that project officers typically do not perform their procedural, financial, and legal monitoring responsibilities well.
- A contracting officer in Egypt observed that project officers have too much responsibility and authority in the legal area given their limited qualifications.
- Many staff members in the Bangladesh mission stated that they do not have the skills they need in such areas as contract management, project monitoring, and financial management. Similarly, staff members in Kenya and Niger said that they lacked needed skills in procurement, property management, contract administration, and financial management.

Senior agency officials acknowledge that the lack of adequately trained personnel is a serious concern. A former assistant administrator stated that AID has not recruited or trained its staff to perform contract management even though the agency is largely dependent upon contractors to implement projects. According to a former deputy assistant administrator, AID continues to hire technical experts but then places them in contract management functions. AID also places foreign service officers lacking human resource experience and training in management positions in the Human Resource Development and Management Division. In acknowledging AID's work force problems, a deputy assistant administrator told us that AID has too many technical experts in some areas, such as agriculture, and not enough in other areas. Our July 1991 report provides an example of this problem—AID had a very small pool of staff with energy backgrounds to carry out its energy assistance program.<sup>1</sup>

## **Inadequate Planning of Work Force Needs**

AID has not systematically planned for its work force needs. AID does not have an integrated system for determining the composition or appropriate mix of its work force, ascertaining what skills the various missions require, matching these requirements with the skills available in the direct-hire work force, and filling gaps in the agency's skill profile. AID officials, however, are currently developing a work force planning system.

Our review showed that (1) work force planners were constrained by the absence of basic information on the work force; (2) AID did not have a good picture of the work force in terms of its size, components, and skills;

<sup>1</sup>Foreign Assistance: AID Energy Assistance and Global Warming (GAO/NSIAD-91-221, July 16, 1991).

(3) mission reports on staff composition were not standardized so data among missions could not be compared in a meaningful way; and (4) AID has not performed a work load analysis to determine what work needs to be done, what skills will be required to accomplish the work, and how the demand for staff and skills matches the current staff and skills profile.

AID also lacks standards for making staffing allocations among missions. As a result, agency officials do not know whether current staff levels are appropriate, although they cited many examples of perceived staffing inequities among various missions.

Our April 1992 report showed that the ratio of country program funds to work years allocated to managerial and professional functions varied substantially from country to country. While some programs are less staff intensive, these variances, according to AID officials, reflect overseas work force patterns that are not based on agencywide work force planning, but rather on such factors as historical work year levels, the availability of trust funds to augment operating expenses, and the management style of mission directors.

Staffing decisions are often left to the discretion of senior mission officials. In the Latin America and the Caribbean missions, we found inconsistencies in how the project development and program offices were staffed. The Regional Development Office/Caribbean in Barbados and the Ecuador mission had similar funding levels and similar overall staff size. However, the U.S. direct-hire staff devoted to the project development and program offices varied greatly. The Regional Development Office/Caribbean devoted four U.S. direct-hire staff to the project development office and one U.S. direct hire to the program office. The head of the project development office and one of its officers were two of the most senior staff at the office. Conversely, the Ecuador mission merged the two offices and had only one U.S. direct-hire employee, who headed the office. She was a new foreign service officer who had converted from civil service and was serving her first overseas tour.

The deputy mission director in the Regional Development Office/Caribbean said that the staffing in the project development office was appropriate. However, the new office director told us that the project development and program offices were overstaffed and that she was merging the two offices and reassigning two of the direct-hire employees.

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## Ineffective Placement, Training, and Recruitment Constrain Work Force Management

AID has not developed effective placement and recruiting programs or provided adequate access to training. Current placement practices do not ensure that available staff skills are linked with missions' priority needs, and neither the training nor recruitment programs are structured to systematically obtain skills the agency needs.

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### Placement Practices Are Informal

The placement of U.S. foreign service staff overseas is theoretically managed by AID/W through a formal assignment process, which is administered on an annual cycle. Steps in the process include announcing vacancies, bidding for vacancies by eligible staff, and the meeting of assignment boards to fill the vacancies. The assignment boards are supposed to match eligible employees to available positions according to the employees' preference list and the needs of the mission or bureau. An employee is not supposed to participate in the negotiation of his/her assignment.

Direct-hire staff, in practice, however, are not allocated based on an AID/W assessment of which missions most need their skills. Rather, we were told that mission directors rely heavily on informal contacts to personally recruit staff for their missions and that no system exists to ensure a fair distribution of skilled staff. In 1989, an AID study of the assignment system found that 26 percent of the staff eligible for reassignment did not submit bids, leading to the conclusion that a substantial portion of staff were relying on the informal system or had given up on the formal system.

According to AID officials, the lack of a disciplined assignment system has led to staffing anomalies. We were told, for example, that the most experienced staff are often at posts in more developed countries with comfortable living conditions, rather than at posts where their skills may be needed more. On the other hand, smaller missions with undesirable living conditions, such as many posts in Africa, are perceived as having a disproportionate share of junior, inexperienced staff. The Bangladesh mission was unable to fill critical U.S. foreign service staff positions for one of its largest programs. Recognizing agencywide shortages in the particular technical field, the mission waived the requirement for technical experience, but still was unable to attract bids for the positions.

The concurrent turnover of U.S. foreign service staff, tied to an annual cycle, is also a serious problem for the overseas missions. For example, half the U.S. foreign service staff in Ecuador—including the mission

director, deputy mission director, and chief of Program and Project Development—rotated in 1991, leaving the mission with newly arrived replacements unfamiliar with the development needs of Ecuador.

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### Training Not Provided on a Systematic Basis

Although we did not assess the relevancy or quality of AID's training program, we found that AID does not systematically budget for training or make training available to its overseas work force. AID's 1989 Assessment of AID Staff Training Programs observed that training was the primary responsibility of the employees themselves and their immediate supervisors, with minimal direction and involvement by senior AID managers. The President's Commission on the Management of AID Programs stated in its 1992 report that AID's training programs evolved over time and lack a focus with respect to agency goals or employee career development objectives.

Our review indicated that training is guided not by agencywide standards and requirements but by the availability of mission funds and the importance placed on training by an employee's supervisor. Some missions reported that their training budgets were inadequate and that training seemed to be among the first activities to be cut from missions' budgets when reductions were needed. For instance, a senior mission official in Jordan observed that the mission provides training as funds become available but that because of budget cuts, training funds have been drastically reduced.

### Recruitment Not Tied to Skill Needs

AID does not recruit new direct-hire employees with skills that necessarily match its needs. Rather, according to an AID report, AID's recruitment program basically "clones" its work force—that is, AID hires new workers with the same skills as those who leave. This process has not identified trends, nor has it tied personnel adjustments to program adjustments.

An AID report also noted weaknesses in the agency's recruiting system. A 1988 AID report, Assessment of the Foreign Service and Civil Service Recruitment Systems, stated that there was no analysis of the skill mix and other personnel needs of the agency. Without such an analysis, new recruits may not have the skills to match AID's needs. To improve the recruitment system, the report recommended that, among other things, AID ensure continuing senior management involvement and establish a comprehensive work force planning process. However, senior management did not follow up on many of the report's recommendations.

## **AID Could Improve Accountability Through Better Work Force Management**

According to AID officials, the steady reductions of its U.S. direct-hire work force, coupled with the rapid expansion of programming and management requirements, have been a major source of its accountability problems. That is, AID believes it has too few U.S. direct-hire staff available to oversee too many programs and projects. While direct-hire staff reductions challenge AID's ability to manage its activities, our review showed that the agency had not effectively used or managed its work force to provide accountability and oversight over its programs and projects.

The AID Administrator identified inadequate staff levels as a material weakness in his 1991 annual statement and report on internal controls as required by the Federal Managers' Financial Integrity Act of 1982. The report stated that low direct-hire staff levels in AID headquarters and overseas had resulted in unsatisfactory compliance with standards for control of and accountability for AID-managed funds. According to the AID Administrator, more than one-third of AID's missions reported that they had inadequate staffing levels to effectively control assistance.

According to AID documents we reviewed, many mission officials reported that their staffs were overextended, causing accountability problems. For instance, the Philippines mission reported that it had inadequate staffing to monitor projects. The Regional Inspector General in Egypt also stated that the program was too large for the available staff to effectively handle and that the mission did not have the staff and other resources necessary to adhere to AID's regulations. Further, our fieldwork confirmed a widespread apprehension about further staffing cuts, even in missions that felt prepared to deliver assistance under current conditions. According to mission officials, AID may not be able to cut staffing further without sacrificing accountability. The Work Force Planning Working Group strongly affirmed this view, stating that AID had already cut its U.S. direct-hire staff to the limit.

Despite these concerns, our review disclosed numerous instances in which AID was not managing effectively its existing overseas direct-hire work force. In many cases, mission staff did not have the appropriate skills to perform the work AID was pursuing. The chief of the Office of Food and Agriculture at one mission said that he was developing a multimillion agribusiness project without benefit of experience or training. Senior officials at another mission said AID had not clearly articulated what skills would be needed to implement projects aimed at promoting democratic initiatives. Other examples of ineffective human resource management included the following:

- Two of the five health officers at one mission with a large health program rotated out of the program simultaneously. These positions remained vacant for months.
- Inexperienced staff were placed in controller positions because AID had not anticipated shortages of personnel in the financial management career development path.

## AID Has Taken Steps to Improve Human Resource Management

AID has taken a number of steps to develop a work force planning process and to improve human resource management. Since completion of our field work, various working groups under the Human Resources Development and Management Division have examined work force planning, recruitment, training, career enhancement, placement, the use of various types of employees, and the reward system. The division has made a number of recommendations to strengthen the agency training, such as establishing an agencywide fund to cover training and related travel costs, and conducting a comprehensive evaluation of the overall training program. However, to date none of these recommendations have been implemented.

AID officials stated that many of these recommendations may not be implemented because of funding constraints. The percentage of AID's budget devoted to training is below the federal average. According to AID officials, the training portfolio reflects the tough funding decisions that must be made, with priority given to accountability and vulnerability training over career development and skills updating.

In December 1992 the Work Force Planning Working Group was established as a permanent office to implement a work force planning system. As a first step, the group defined and collected data on the present work force. According to AID officials, other steps completed or underway include

- developing a conceptual framework for making management, program, and administrative staff decisions for AID's overseas operations;
- analyzing attrition and promotion in the foreign and civil services for use in its recruiting program;
- designing a work force replacement model to define the changes between 1991 and 1993 in the composition of the U.S. foreign service staff;
- conducting surveys to help determine skill needs and perceived program directions as part of an effort to develop a skills-based employee information system;



- developing an employee “certification” system in response to recommendations of the joint AID/OMB Swat Team, expanding the recruitment outreach program, and reestablishing the International Development Intern Program as the principal vehicle for recruitment;
- restructuring the management incentives system to more closely tie employee accountability and results to AID’s goals and objectives, with measurable work agreements tied to consideration for promotion and onward assignments; and
- giving AID’s Human Resources Development and Management Office greater control over the assignment system so that assignments are based on global program requirements and employee career development needs.

AID noted other steps it has undertaken to improve work force planning. The Support Budget Division has undertaken a review of the roles played by all mission personnel resources and the policies regarding them—including U.S. direct hires, U.S. personal services contractors, foreign service national direct hires and personal services contractors, and other nondirect-hire resources.

The Support Budget Division also developed an overseas staff year allocation model to better integrate programming, budgeting, and staff year allocations for the fiscal year 1992 budget process. The model sets work force ranges for missions, based on the nature of the program (e.g., political, developmental, disaster relief, advanced developing country) and funding levels. Also, a detailed review of AID’s overseas in-country presence, conducted under the leadership of the Policy Directorate, provides additional insights on the functions and configuration of overseas missions. However, our preliminary review of the staff year allocation model and discussions with agency officials indicate that the geographic bureaus may not abide by the model’s mission staff ranges without continuing attention by senior AID management.

AID officials involved in human resources management reform expressed frustration over the lack of an agencywide strategic direction. AID’s report, Reforming the Incentives System, cites the lack of strategic direction as a critical obstacle to improving human resources management. It concludes that without this strategic direction, AID will have difficulty in developing a system to provide appropriate staff for shifting program approaches and multiple objectives. The Human Resources Division, for example, has had to make certain assumptions about the future of AID which may or may not prove accurate. The overseas staff year allocation model, for example, is based on an assumption that AID will maintain its traditional overseas

mission structure, which may not be the case in light of budget constraints (see ch. 2).

## Conclusions

For U.S. foreign economic assistance program reforms to be effective, AID needs to address the efficiency of assistance delivery at the mission level. AID has evolved from a financing agency to an implementing agency to one that finances and oversees the implementation and evaluation of its projects through outside parties, such as contractors, grantees, and nongovernment organizations. However, it has not restructured its work force to reflect the changes in responsibility. As a result, AID's mission staff often lack the skills needed to perform their jobs. While AID officials assert that they do not have a sufficient number of U.S. foreign service staff and cite the shortage as a major source of accountability problems, AID has historically lacked work force planning and management systems that would help match skills of all types of employees with mission staffing needs and ensure that the agency is making the best use of the staff it does have. Further, although direct-hire staff reductions may have increased accountability problems, AID has not assessed where it is under- or over-staffed or made the best use of the staff it has through effective recruitment and training.

Achieving AID's goal of improving overall agency management would require AID to anticipate and plan for the needs of a key ingredient, its employees—both direct and nondirect hire. Although the AID Administrator has taken a number of steps to improve human resources management, the reform efforts have not been integrated in a well-defined strategic management process as recommended in our March 1992 report. Such integration would provide a clear vision of AID's future program direction and allow AID to make decisions—such as what roles are appropriate for the various components of its work force—more rationally. AID could then decide on how best to recruit and train its work force to meet the agency's long- and short-term goals.

## Recommendations

We recommend that the AID Administrator develop and implement a comprehensive work force planning process and management capability as a systematic, agencywide effort. This planning process should:

- Develop human resource planning guidance and assure integration with AID's proposed strategic planning process.

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**Chapter 4**  
**Sustained Effort Needed for Human**  
**Resource Planning and Management**  
**Reforms**

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- Ensure that accurate, standard, and comprehensive data, which are needed for work force planning, are available in AID/W, including (1) work load assessments and (2) projections of optimum levels of staffing and skill mixes for all types of employees.
- Assign, recruit, and train direct- and nondirect-hire staff to meet the staff and skill requirements and projections identified in the mission work load and staff assessments.

Further, the AID Administrator should institutionalize work force planning and management capability to ensure its continuation by successive administrators by

- ensuring that staff qualified in human resource management fill key positions in the Human Resource Development and Management Division,
- training appropriate line managers and human resource staff in work force planning,
- systematically budgeting for training and related travel costs and ensuring that funds remain available for this purpose, and
- assigning responsibility for preparing bureau-specific work force plans that support AID's strategic vision to the heads of each bureau to ensure line-manager support and involvement in work force planning.

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## Agency Comments and Our Evaluation

AID did not comment specifically on human resource management issues in its written comments on a draft of this report. However, we discussed our findings on these issues with agency officials and they generally agreed with our conclusions and recommendations. They also pointed to several recent efforts to improve work force planning, such as collecting baseline data and developing new systems which should increase AID's ability to more proactively manage its human resources. We agree that AID has taken some positive steps but, as agency officials have acknowledged, AID has not yet adequately integrated work force planning and management into a larger strategic management framework.

# Foreign Assistance Objectives Contained in the Foreign Assistance Act of 1961, as Amended

- Alleviating the worst physical manifestations of poverty among the world's poor majority.
- Promoting conditions that enable developing countries to achieve self-sustaining economic growth with equitable distribution of benefits.
- Integrating developing countries into an open and equitable international economic system.
- Increasing the opportunity and capability for the poor to participate in the development process.
- Reducing infant mortality.
- Controlling population growth.
- Increasing agricultural productivity per unit of land through small-farm, labor-intensive agriculture.
- Contributing to improvements in the health of the greatest number of poor people in developing countries.
- Reducing illiteracy, extending basic education, and increasing manpower training in skills related to development.
- Helping developing countries to develop, produce, and effectively use energy.
- Assisting the development of the private sector in developing countries.
- Integrating women into national economies to enhance their status and to further the development process.
- Supporting human rights by not providing assistance to countries that engage in a consistent pattern of gross violations of these rights.
- Reducing environmental degradation and promoting natural resources management.
- Encouraging conservation and sustainable management of tropical forests.
- Preserving biological diversity.
- Using, whenever feasible, private and voluntary organizations to implement development activities.
- Strengthening the development and use of cooperatives.
- Eliminating illicit narcotics production.
- Establishing and upgrading the institutional capacities in developing countries.
- Demonstrating American ideas and practices in education and medicine to citizens of other countries through U.S. schools, libraries, and hospitals abroad.
- Assisting developing countries in marshalling resources for low-cost shelter.
- Encouraging democratic institutions in developing countries.
- Encouraging the development capacities of U.S. educational institutions.
- Educating the U.S. public concerning developing countries.
- Providing international disaster assistance.

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**Appendix I  
Foreign Assistance Objectives Contained in  
the Foreign Assistance Act of 1961, as  
Amended**

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- **Emphasizing the use of smaller, cost-saving, labor-using technologies.**
- **Encouraging U.S. private investment in U.S.-sponsored economic and social development programs.**
- **Encouraging regional cooperation among developing countries.**
- **Promoting policy reforms in developing countries to achieve economic growth with equity.**
- **Assisting developing countries to increase their national food security.**
- **Addressing the shelter and urbanization needs of developing countries, such as municipal management and finance, water and sanitation, and infrastructure.**

# Strategic Management Model

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In our March 1992 report, we defined the strategic management process as a disciplined, systematic process linking (1) commitment to planning and (2) goal-setting to strategies, budget, and accountability. The strategic management model we recommended (see fig. II.1) describes a framework that 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.<sup>1</sup> 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.

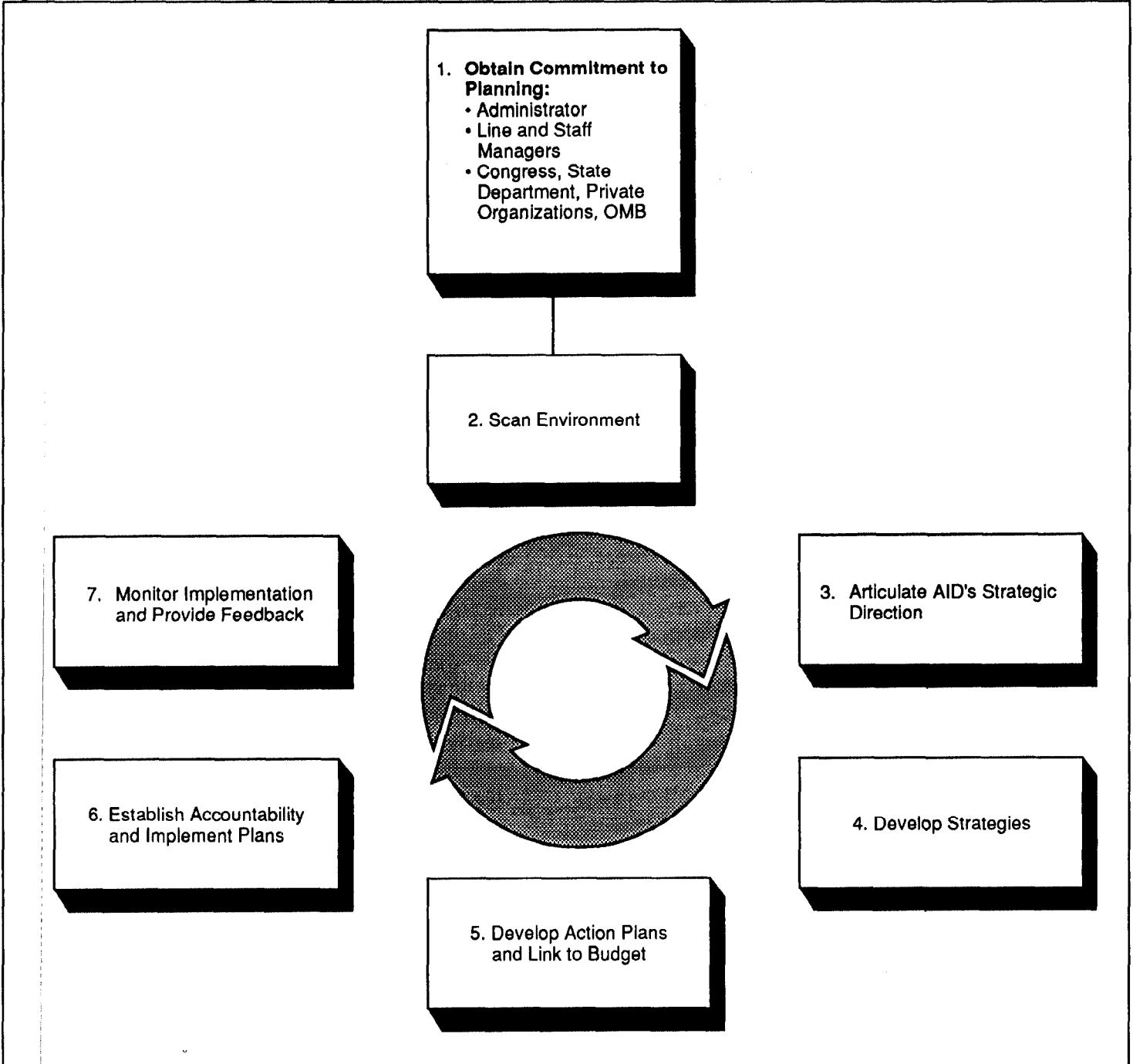
The proposed strategic management framework has seven elements. Elements 1 through 5 comprise the strategic planning aspects of the process, while elements 6 and 7 are management functions. Although figure II.1 depicts a sequential process, it is iterative—successful problem-solving may require that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

The AID 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.

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<sup>1</sup>This model was first proposed in Management of VA: Implementing Strategic Management Process Would Improve Service to Veterans (GAO/IRD-90-100, Aug. 31, 1990).

Figure II.1: Proposed Strategic Management Framework



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## Strategic Planning Elements

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### Commitment to Planning

The purpose of establishing a commitment to planning is to obtain the support of key groups for the strategic management process. Participants should include the AID Administrator; key AID line and staff managers at headquarters and in the field; and representatives of external groups concerned with AID's mission, including 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.

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### 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 AID 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 directions, 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.

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### Articulate AID's Strategic Direction

The purpose of this element is to envision in broad terms AID's future direction. Participants include the AID Administrator; key line and staff managers; and representatives of external groups concerned with AID'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. The



AID 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 should select only the few key issues that are most critical to AID's basic objectives and its ability to achieve them.

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**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.

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**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.

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**Management Elements**

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**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

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(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.

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**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 AID Administrator and agency managers. Participants would (1) monitor progress toward implementing action plans, (2) periodically report progress and problems to the AID 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.

# Comments From the Agency for International Development



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

May 21, 1993

*The Administrator*  
The Honorable Charles A. Bowsher  
Comptroller General  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Bowsher:

I appreciate the opportunity to comment on the GAO's February 1993 final draft report, "Foreign Assistance: A.I.D.'s Strategic Direction and Continued Management Improvements Needed" (GAO/NSIAD-93-106), which is timely and helpful. I understand that A.I.D. worked closely with your staff on this general management review. That close collaboration will continue as we address the major issues raised by your report.

The GAO's draft general management review presents two basic findings: (1) A.I.D. is stretched too thin, given the multiplicity of its objectives; and (2) as a result, A.I.D. has had difficulty effectively managing the resources entrusted to it. Both points are valid.

The Clinton Administration has made one of its top priorities the restructuring of all the U.S. foreign affairs programs and institutions. Deputy Secretary of State Wharton is leading an Administration review of foreign assistance, and I am actively involved in that process. We expect to develop, with the Congress and with the American people, a consensus on the goals of our foreign assistance program. Against this background, we will develop strategies, programs, and an organizational structure to support the agency's new policy focus.

In addition, I have committed the entire agency as a "reinvention lab" as part of the National Performance Review (NPR) led by Vice President Gore. This will initiate a wide range of management improvement efforts, focused on improving results, within the strategic management approach recommended by the GAO. We will fix the administrative processes that are broken, and we will develop new tools, e.g., an integrated agency management information system to improve efficiency and provide information required for central oversight.

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Appendix III  
Comments From the Agency for  
International Development

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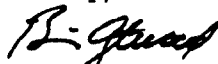
I will also review ongoing management reforms and incorporate them, as appropriate, with new ideas and approaches of the NPR. We are establishing a new oversight group to provide coherence for the various efforts, incorporate them with the NPR, and monitor implementation.

The Agency's problems will not be cured overnight. Nevertheless, consistent with the emphasis of the NPR, our efforts should be evaluated for results after an appropriate period. We welcome GAO's participation in the process.

The people of A.I.D. are an exceptional professional resource. They must be both prepared and empowered for the new tasks ahead, to unleash their creativity and energy to solve the difficult management and program challenges we face.

I am committing this Agency to the achievement of excellence in the effective and efficient administration of the public funds entrusted to it. I assure you that management improvement is one of my top priorities, and I intend to implement our new program with a sense of urgency. We will work closely with you to ensure that the GAO's concerns are addressed, and that we achieve the results envisioned by the NPR.

Sincerely,



J. Brian Atwood

*I hope to meet with you soon  
& discuss the issues.*

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Postage & Fees Paid  
GAO  
Permit No. G100

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