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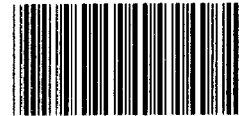
Before the Committee on Foreign Affairs, House of Representatives

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FOREIGN ASSISTANCE

Reforming the Economic Aid Program

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Mr. Chairman and Members of the Committee:

I am pleased to be here to participate in this discussion of how the U.S. foreign assistance program should be reformed to meet the challenges of the post-Cold War era. It is very encouraging that this debate is occurring at this time, for the challenges facing the new Administrator of the Agency for International Development (AID) as he attempts to "reinvent and reinvigorate" the agency are indeed formidable.

#### RESULTS IN BRIEF

In commenting on our general management study, Administrator Atwood stated his resolve to completely examine and reform AID's management practices, organization, and structure with a focus on improving accountability and results. He has proposed that the agency be designated a "reinvention lab" as part of the National Performance Review led by the Vice President. We commend him for this and encourage his efforts. He has indicated to us that he is keenly aware that other administrators have also come to the job with good intentions of reform and management improvement programs, but have left office having achieved only limited success. Changing AID's organizational culture--a culture that has resisted change--will mean the underlying assumptions, beliefs, values, and attitudes shared among AID's staff will all need to be questioned and reevaluated.

My discussion today will be based largely on our general management study of AID that looked at AID's management capability and overall effectiveness.<sup>1</sup> The bottom-line conclusion of our work was that AID had entered the 1990s unprepared to meet the management challenges facing it, a conclusion that numerous other studies and informed observers of AID had also reached. In our report, we described numerous long-standing management problems that prevented AID from effectively implementing the foreign aid program. We documented evidence that AID's organization had become so diffused that it often appears to operate as a loose affiliation of independent mini-agencies, each with its own agenda, procedures, and management systems. We further reported that AID

- lacked a clearly articulated strategic direction shared by key external and internal groups;
- had historically been without the central leadership needed to establish agencywide goals and priorities;
- was losing its traditional role as the leading development assistance agency;

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<sup>1</sup>Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

- did not have agencywide management controls and evaluation systems to hold officials accountable for implementing programs in accordance with AID policy or for achieving specific results; and
- had not done enough to ensure that its employees have the skills necessary to meet new management and administrative responsibilities and are appropriately allocated within the agency.

#### REASSESSING THE OBJECTIVES OF FOREIGN ECONOMIC ASSISTANCE

One of the most important challenges facing the U.S. government is the advancement of a coherent foreign aid policy that redefines our national interests, balances objectives with available resources and capabilities, and establishes clear organizational accountability. Over the 30 years since its enactment, the Foreign Assistance Act of 1961 has been frequently amended, often to add new objectives or to refocus old ones; however, neither the foreign assistance goals and objectives nor the approaches used for providing this assistance have been fully reexamined. As you well know, the Hamilton-Gilman Task Force, established by this Committee, reported in 1989 that AID was an overburdened agency hamstrung by too many objectives, coupled with declining resources. With the breakup of the Warsaw Pact and the Soviet Union and increasing demands for assistance, the problem of too few resources being allocated toward too many objectives and among too many countries--108 at last count--is even more critical in 1993.

To successfully meet this challenge, the Congress and the administration must become engaged at the very top levels to reach agreement on the policy goals of U.S. assistance. While policy differences are inherent in the federal system of checks and balances, the deep mistrust that developed between the two branches of government with regards to foreign aid programs has been counterproductive. It led the Congress to play a significant role in programming decisions and take an active role in AID's activities to ensure that its intentions were met. Executive branch officials, however, countered that this extensive congressional involvement added to the diffusion of foreign aid activities and hampered AID's ability to effectively manage them.

The end of the Cold War provides the new administration and the Congress with a unique opportunity to "reinvent foreign assistance." One model for this task may be the Development Fund for Africa, which offers an example of the budget and programming flexibility that can result from a convergence of congressional and

executive branch views on assistance objectives.<sup>2</sup> While not the total solution to the multiplicity of management problems within the agency, the replacement of rigid sector-by-sector budget allocations for three broad spending targets improved project planning and implementation. According to field officials, the fund has given them increased latitude to analyze a country's problems and devise an appropriate development strategy that considers the host government's policies, other donor activities, and AID's track record in specific types of activities and projects.

#### The New Administration's Policy Direction

As I indicated earlier, the proliferation of foreign aid objectives that the agency is supposed to accomplish has seriously diluted its ability to satisfactorily accomplish any of them. We hope that the statements of the Deputy Secretary of State and the AID Administrator articulating only a limited number of objectives prove to be a reversal, and not a continuation, of this trend. If there is indeed to be a reversal, it will not happen without vigilance by AID management and cooperation from the Congress.

We would note that the Deputy Secretary's definition of AID's policy rationale--promoting sustainable economic development, supporting democratic values and institutions, assisting developing nations in transitioning to a market economy, building human capital in developing countries, and expanding U.S. participation in the international economy--does not by itself focus or prioritize AID's objectives. In addition, the new Administrator has stated that AID is preparing strategic approaches and clear goals in four areas that may or may not correspond to the Deputy Secretary's--the environment, population and health, economic growth, and democracy. The Administrator also is championing a new role for AID. He has defined political and ethnic conflict as a development problem to be addressed by a rapid response system for conflict resolution under AID's direction.

The appropriate mix of funds to be allocated to bilateral versus multilateral programs and the executive branch's management of multilateral programs should be part of the current policy debate. Although the United States exercises greater influence over its bilateral programs, the economic programs of multilateral donors may be more appropriate. It would appear that any effort to improve the performance of the U.S. assistance program--such as developing a rapid response system--needs to weigh the advantages and disadvantages of each type of assistance and location for the management of multilateral assistance.

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<sup>2</sup>Foreign Assistance: Progress in Implementing the Development Fund for Africa (GAO/NSIAD-91-127, Apr. 16, 1991).

## Providing Leadership Within the Federal Government

Various studies and task forces, beginning with the Hamilton-Gilman Task Force, have discussed options for the organizational location of foreign assistance activities. In April 1992, the President's Commission on the Management of AID Programs concluded that AID's organizational location within the executive branch--as a semiautonomous agency under the general policy direction of the State Department--did not equip it to respond with the effectiveness and flexibility required by the rapidly changing world of the 1990s. The Commission argued that AID had difficulty attracting effective leaders because it lacked prestige and that the agency was less able to resist the imposition of new priorities and programs because it spoke with less than Cabinet-level influence. Concluding that the rationale for foreign assistance was to support U.S. foreign policy objectives, the Commission recommended that AID be fully merged into the State Department.<sup>3</sup>

The State Department's Interagency Task Force to Reform AID has since concluded that AID, as an agency, remains viable and that its problems stem less from its organizational location than from an unfocused mandate, overregulation, and poor management. We generally agree with this conclusion; recent studies, however, indicate that AID does not currently have the institutional capacity to provide an executive-level leadership role for foreign assistance. Our general management study noted that AID's traditional role as the lead agency for administering economic assistance has been eroded and that other agencies have begun to take the lead in implementing new programs. For example, the State Department took the lead in managing assistance to Central and Eastern Europe, and more than 15 U.S. government agencies and other entities were involved. AID's role, however, was unclear. State Department officials observed that some U.S. agencies were using their assistance programs as an opportunity to establish an overseas presence. A similar number of U.S. agencies are involved in providing assistance to the republics of the former Soviet Union; AID's role has not been clearly defined, particularly in the area of macroeconomic reforms. In Latin America, the Department of the Treasury took the lead in implementing the Enterprise for the Americas Initiative, and AID found itself taking a secondary and poorly defined role.

The dispersion of development operations among various agencies and other outside parties may simply be the wave of the future. For example, the fusion of domestic and international concerns into transnational issues may make the scope and complexity of assistance beyond the capability of any one agency to administer. We found general acceptance of this view among other bilateral

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<sup>3</sup>Report to the President--An Action Plan, the President's Commission on the Management of AID Programs (Apr. 16, 1992).

donors. Some other donors' primary aid agencies are moving to a brokerage management model in which the development agencies purchase design and implementation services from the "open market," including for-profit firms, nongovernmental organizations, universities, and other government agencies. The Japanese have turned over almost all of their development program in Africa to international organizations and another government's agency--the British Crown Agents--for implementation presumably because this continent is not of strategic interest to them. In other cases, donors have responded to new demands by creating institutions with clearly distinct mandates and organizational cultures.

Regardless of which organizational approach is finally selected, we believe that it is important to translate congressional and administration directives into a coherent and integrated assistance policy for the entire executive branch. For decades, interagency coordination of foreign assistance at the senior level has been lacking or weak. President Carter's 1979 list of development problems are still pertinent today:

- the United States lacks a comprehensive and coherent strategy for development assistance;
- no agency or official in the executive branch is ensuring that the various U.S. programs affecting development are consistent with each other or with multilateral organizations; and
- development concerns are accorded insufficient weight in executive branch decision-making.

#### AID MANAGEMENT

External and internal reports have repeatedly noted persistent problems in AID's management of its decentralized organizational structure and human resources. AID often has also not provided policy leadership within the agency or among key external groups. In striving to change this situation, we would urge the Administrator to apply lessons that can be learned from his predecessor's less-than-successful effort to provide an agencywide policy direction. We found that overseas missions were highly critical of the prior Administrator's directives, and they simply repackaged their portfolio around them to protect funding levels. For example:

- The Barbados office placed 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.

In a 1992 report, we recommended that the AID Administrator establish a strategic management process. Such a process would help the agency articulate a clear strategic direction shared by key internal and external groups. Establishing a strategic management process would include, among other things, ensuring that the systems for making management decisions on programs, budgets, operations, and personnel levels are integrated and include accountability and monitoring.<sup>4</sup> The Administrator has indicated that he intends to build upon the previous Administrator's efforts at strategic planning to develop a consensus on the goals of AID's foreign assistance program. As we noted in our report, without a clear vision of what AID should be doing and why, AID's efforts to reorganize, focus its program, plan for future work force needs, and measure program performance may not be complementary.

#### Weak Corporate Control Over Agency's Operations

AID's overseas structure has remained essentially unchanged for more than 30 years. AID maintains that its field presence is necessary due to (1) the need for policy dialogue to encourage recipient economic policy reform, (2) the political advantages of having an in-country presence, and (3) planning and design needs for assistance projects. While a continued field presence may provide many advantages, AID's decentralized operations increase programming complexity and increased administrative and program costs. Moreover, AID management has maintained weak corporate control over its field offices and lacks the necessary management systems to ensure that its decentralized operations are accountable to policy positions taken at the corporate level.

A key factor limiting effective corporate control is the lack of standardized management systems. The Administrator has noted that systems do not exist to facilitate comprehensive management from the top. In other words, AID does not currently have the tools it needs to hold bureau and mission personnel accountable for properly implementing programs and achieving results.

In a 1993 report, we discussed the lack of agencywide evaluation, financial, and management information systems to ensure the Administrator could adequately oversee decentralized field offices and hold them accountable for implementing agencywide policy.<sup>5</sup> We found, for example, that AID's current evaluation 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. The

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<sup>4</sup>AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

<sup>5</sup>Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).



evaluation systems do not emphasize results as much as project design and the timely obligation of funds.

According to AID, the PRISM system--a new program performance monitoring, reporting, and management information system--will help meet its need for standardized management systems. However, full implementation of this system is still at least a year away. Furthermore, the system may be designed to meet too many reporting needs. Reflecting AID's customary decentralization, missions will develop their own country-level goals and have the flexibility to revise them over time. While this may be a valid mission management system, PRISM will not enable comparisons to be made between missions and over time.

AID has also been informed by a prominent budget expert that it must change its culture before it can effectively design and implement a performance-based budgeting system--a key characteristic of "reinvented" agencies.<sup>6</sup> He concluded that AID's culture gives central officials an inordinate involvement in the details of operations, while curbing their capacity to provide policy leadership. This relationship does not foster accountability for results at the top or sensitivity to centrally established objectives at the bottom.

AID has also experienced serious accounting system and financial reporting problems that preclude it from (1) matching disbursements with outstanding obligations or producing auditable financial statements, (2) ensuring that it has received property it has paid for and reliably reporting on its distribution, and (3) promptly and accurately providing information on the costs of program operations.<sup>7</sup> These problems occurred because AID's managers had not enforced established accounting and financial reporting procedures; however, we are encouraged by the recent actions AID has taken to correct these problems.

In late 1992, we reported that AID had taken steps to improve its strategic information resource management program.<sup>8</sup> AID is just beginning to shift its focus from obtaining information technology, with little control or standardization of data or systems agencywide, to managing information as a corporate resource. Until this shift is complete, there remains no assurance that information

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<sup>6</sup>A Performance-Based Budgeting System for the Agency for International Development, Dr. Allen Schick (AID, June 1993).

<sup>7</sup>Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19, May 24, 1993).

<sup>8</sup>Information Resources Management: AID Falls Short in Key Elements of a Quality IRM Program (GAO/IMTEC-92-64, Sept. 29, 1992)

technology acquisitions are based on identified information requirements, or that problems with inefficient and unintegrated systems will not persist.

Our work over the past several years provides specific 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 on-going work, we note that no unit is responsible for ensuring that policies for including women in development activities are carried out. Furthermore, accountability for program design and results are hampered by AID's failure to routinely collect gender-disaggregated data and develop useful program indicators.
- In a 1993 report, we noted that U.S.-generated local currency funds in Kenya were vulnerable to mismanagement or diversion because AID had not ensured that its mission was consistently monitoring and documenting the programming, withdrawal, expenditure, and end use of these funds.<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. Disaster Assistance and the Africa Bureau and reduced the likelihood that disaster responses would be fully integrated with development programs.

#### Human Resource Management

According to AID officials, the steady reductions of its U.S. direct-hire work force, coupled with the rapid expansion of accountability requirements, have hampered AID's administration of the foreign assistance program. Another widely held organizational belief is that agency inefficiency and ineffectiveness results from "irrelevant and burdensome regulations." While the reasonableness of many accountability requirements can be questioned, our work demonstrates that operational weaknesses may arise less from the

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<sup>9</sup>AID to Kenya: Accountability for Economic and Military Assistance Can Be Improved (GAO/NSIAD-93-57, Jan. 25, 1993).

<sup>10</sup>Foreign Disaster Assistance: AID Has Been Responsive, but Improvements Can Be Made (GAO/NSIAD-93-21, Oct. 26, 1992).

regulatory environment than from AID's ineffective human resource management.

Over the last 3 decades, AID's programs have evolved substantially, from an early emphasis on financing capital projects in the 1960s, to basic human needs in the 1970s, to greater emphasis on private sector development in the 1980s. At the same time, AID's direct-hire staff declined from over 10,000 in the 1960s, to about 3,000 today. These changes, taken together, mean that AID can no longer be the hands-on implementor it once was, and instead it must supervise the work of others to carry out its programs. However, AID has not restructured its work force to reflect this change, and as a result, its 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 employees with mission staffing needs and ensure that the agency is making the best use of the staff it has. 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.

Recent studies indicate the importance of determining the extent regulations or poor human resource management causes management weaknesses. In 1990, for example, we tested AID's claim that the federal acquisition requirement for full and open competition was a major factor in delaying overseas project implementation.<sup>11</sup> In examining a sample of the longest outstanding contracting actions, however, we found that the delays occurred because of management and administrative factors, such as insufficient procurement-related training and poor procurement planning.<sup>12</sup> AID procurement studies also identified staff inexperience, lack of training, and unavailability of needed specialists, not procurement regulations, as the major cause of project implementation delays.

## CONCLUSION

The Department of State and AID should be commended for their ongoing examination of foreign aid objectives and organization and for their extensive collaboration with Congress, other federal departments and agencies, and external stakeholders. The AID Administrator, in testimony before the Congress, has articulated many of the same issues that we feel must be resolved before AID can effectively manage the foreign aid program.

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<sup>11</sup>Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31, Oct. 5, 1990).

- First, the expansion of program goals and priorities has spread AID's resources too thinly and diffused its impact in developing countries. We agree with the Administrator that AID must make a tough commitment to do only what it can do effectively--and that means cutting back on the number of development activities administered by AID and the number of nations in which it operates.
- Secondly, AID, in the past, has shown little leadership in attempting to resolve these problems among its internal and external stakeholders. AID must proactively manage the foreign assistance policy debate if it is to retain the role of the primary development agency for the United States.

As noted by the Administrator, AID must also accept responsibility for program inefficiencies that result from pervasive and persistent internal management problems. Corporate oversight at the Administrator's level must be established to ensure the success of the "reinvention and reinvigoration" experiment. We believe this will require the Administrator to instill agency discipline through a strategic management process that encompasses all activities of the agency. As part of this process, AID should develop central controls, such as performance measurement, evaluation, accounting, financial management, and information resources management systems.

The Administrator should further assess whether efforts undertaken by the prior Administrator can be built upon to resolve AID's long-standing management problems. These efforts included a management improvement plan that focused on achieving results by emphasizing comprehensive improvements in project, grant, program management, and implementation--as well as related improvements in management control systems, contracting, and audits. We caution, however, that any management improvements 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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