109237

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

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Tuesday, May 1, 1979

Statement of

Elmer B. Staats

Comptroller General of the United States

before the

Senate Committee on Governmental Affairs

on

Improving Development Coordination

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to discuss with the Committee our views on improving development coordination. Our comments and views are based upon the results of a broad study of the development coordination issue. While the study is not complete, we have reached some preliminary conclusions which are relevant to the consideration of the administration's proposal for the creation of an International Development Cooperation Administration (IDCA). Our presentation will address four areas.

--key changes in the past decade that affect the character of the problem of coordinating policies and programs bearing upon the development of developing countries;

109237

005127

--deficiencies in the present system of coordination centered on the Development Coordination Committee (DCC);

--the adequacy of the IDCA proposal for dealing with the changed character of the coordination problem and with the deficiencies in present arrangements;

--some recommendations for change that could strengthen the prospects for IDCA's success.

Since much of our analysis is quite critical, it should be made clear at the outset that we approach the reorganization proposal in a spirit of constructive criticism. We think that the development coordination function is important. We believe that reorganization is called for. However, we believe that a stronger reorganization proposal is essential.

The Changing Environment of Development Coordination

The past decade or so has witnessed three changes with major implications for the nature of the development coordination problem and for how that problem can best be tackled. First is the shift in emphasis in the aid program from bilateral to multilateral assistance. Since multilateral programs are necessarily less subject to U.S. influence, this change has increased the problems of maintaining reasonable consistency and mutual reinforcement among foreign aid programs. There are such problems not only between bilateral and multilateral programs, but also among the multilateral programs themselves. This kind of coordination is obviously much more difficult to accomplish than the coordination of U.S. bilateral programs.

A second change has been a relative shift in the U.S. bilateral aid program away from a country program focus toward a more project-oriented focus. The declining size of the development assistance program; the New Directions approach to foreign aid with its emphasis upon certain functional areas of activity; and the adoption of a basic human needs development strategy with its focus upon small-scale projects have all contributed to this shift. Meanwhile, partly because of this shift and partly because of the implementation of a 1970 recommendation that AID place greater reliance upon the multilateral institutions for country programming, the capability of AID for macroeconomic analysis of country programs has also declined. But we live in a world of nation states in which coordinated development planning is done at the national level. It is much easier to coordinate aid programs and other development activities around country programs than to attempt to coordinate a series of relatively discrete, disparate projects.

A third major change in the past decade has been the increasing importance of nonaid resources as a source of support for development. The growing importance of trade to the development of less developed countries was, for example, highlighted in the last World Bank annual report. U.S. policies relating to trade, investment, and other foreign economic issues affecting development have traditionally been made in forums in which relatively little attention is paid to such development dimensions.

Deficiencies of the Present System of Development Coordination

The present system of coordination is centered in the Development Coordination Committee which was created by statute in 1973 to advise the President on coordination of U.S. policies and programs affecting the development of developing countries, including programs of bilateral and multilateral assistance. It is an interdepartmental body under the chairmanship of the AID Administrator.

Although the present staff of the Development Coordination Committee has labored valiantly to improve the operation of the present system of development coordination centered in that committee and its subcommittees, the system has several serious deficiencies. In our broad study of the operation of the DCC, we have identified a number of specific problems. Here we shall focus on three broad, fundamental problems.

The first is that the coordination responsibility is lodged in AID which administers one of the development programs that are to be coordinated. The Chairman of the DCC has been the AID Administrator and the staff of the DCC has been located in AID. AID is not viewed as a neutral "honest broker" by other agencies, but rather a party at interest with its own particular set of perspectives and concerns.

The second problem has been that, to coordinate effectively, the development coordinator must have more status and authority than has been accorded in recent years to the Administrator of AID. Agencies do not like to be coordinated. Coordination involves interference in what they consider to be "their" business. The coordinator should therefore have substantial authority to override narrow agency interests, subject only to a relatively rarely used right by other participants to take important disputes to the President. When Governor Harriman coordinated aid programs in the early 1950's and Under Secretary of State Dillon did so in the late 1950's, they had such authority. The AID Administrator, as Chairman of the DCC, has not had such authority. In fact, when the DCC was reorganized last May, that reorganization did not touch existing program responsibilities or upset existing power and influence relationships.

A third major difficulty with the present system of coordination is that it is much better organized for inter-agency coordination than it is for coordination among programs. As we have already suggested, a central feature of the coordination problem is the coordination of bilateral with multilateral programs. Yet, each of the DCC subcommittees and the DCC staff is organized around programs--the multilateral bank programs, the AID program, P.L. 480, and the like. The focus is upon review of projects and policies relating to each of those programs, rather than upon cross-program review. Of course, the presence of AID representatives in the multilateral assistance subcommittee may, for example, promote some incidental coordination of programs, but that is not the central emphasis.

The only major efforts to coordinate among programs have been the DCC's multiyear country papers, of which three had been completed by April 1, and the annual assistance policy statement which concentrated this year on the question of aid levels. This orientation of the DCC seems to be based upon the fact noted earlier - that the May 1978 reorganization of the DCC preserved existing agency jurisdictions. The committees have continued to be chaired and staffed by the agencies that have had responsibility for the programs in question.

Since the new DCC arrangements have been in effect for less than a year, it would be premature to offer a definitive judgment upon them. Nonetheless, we have found that, while there have been some improvements in the operations of some of the committees brought under the DCC umbrella, those improvements have generally had more to do with the leadership of particular committees than with the fact that they are now a part of the DCC structure. For example, we have found that the types of issues most often raised in the discussion of multilateral bank projects in the DCC's Working Group on Multilateral Assistance did not differ significantly from the types of issues that had been raised in the past in the National Advisory Council's Staff Committee when it reviewed such projects. In the case of both bodies, the major emphasis was upon the financial aspects of development projects. Such questions tend to be the major concern of Treasury. We also found that Treasury continued to be the dominant participant in the discussions, as it had been under the NAC. The degree of AID participation did not change and was very much less than that of Treasury.

Does IDCA Offer Prospects for Improving Coordination?

It is not easy to comment on the IDCA proposal because, while a reorganization plan has been submitted to Congress, a number of questions remain unresolved. Nonetheless, on the basis of the plan, the President's message, and other documents, it is possible to offer some broad judgments.

The first question that we shall address is whether IDCA deals with the deficiencies of the present coordination system as we have identified them. A most important purpose of the plan is to separate the coordination function from AID; to establish IDCA as an "honest broker." The administration's plan, however, will not fully accomplish this separation. IDCA will have responsibility for budget and policy related to U.S. participation in certain United Nations and OAS organizations concerned with development. However, the bulk of its responsibilities will be for bilateral programs and AID will be its largest constituent agency.

At this time the intended lines of division between AID and IDCA are also quite unclear. Although we understand that it is the intention that the IDCA Director will stay out of day-to-day AID decision-making, the temptations for him to become involved could be considerable. Faced by the inevitable frustrations of attempting to coordinate development activities with limited power, he may find running a major development program more satisfying. As the senior official responsible for the bilateral aid program, he will very probably be looked to by Congress as the major defender of the AID program on Capitol Hill.

A final problem in the separation of IDCA from AID derives from the fact that the reorganization plan is to be implemented within existing personnel ceilings. It is anticipated, as we understand it, that most of the personnel slots, but not necessarily the individuals who will fill those slots, will come from AID. IDCA will depend heavily for its success on the ability and knowledgeability of IDCA personnel. Since no major functions are to be transferred from other agencies, the principal source of such personnel will necessarily be AID. In sum, we see the objective of separating IDCA from AID as a highly desirable one, but are somewhat uncertain as to how far the reorganization plan will go toward achieving this result.

Will the creation of IDCA significantly enhance the power and influence of the development coordinator? When the administration considered the reorganization issue it had before it several different options which varied with respect to the scope of the programs included and the degree of integration that was contemplated. It might have opted for an IDCA which included all of the key development programs and which would have involved a relatively high degree of integration, as was generally contemplated in a reorganization proposal prepared in AID. Or it might have decided for an organization of very limited scope, but relatively high integration-an option some called a "Little IDCA." Finally, consideration was given to the possibility of a development coordinator whose scope would have extended to all major development programs, but whose authority over those programs would have been limited to budget and broad policy responsibility. Instead, the President opted for an IDCA of quite low scope and low integration. This choice offered the least prospect of creating a stronger development coordinator.

What instruments of influence are available to the IDCA Director to influence both bilateral and multilateral development policies and programs? He will have budget and policy authority over the constituent elements of IDCA--AID, specified international organization activities, and the proposed Institute for Technological Cooperation. Although the Overseas Private Investment Corportation will be a component of IDCA, its policies and budget will be set by its own board. However, the Director of IDCA would provide a linkage with OPIC through his membership on the OPIC board. Since basic AID legislative and Executive Order authorities will be delegated to IDCA for redelegation as appropriate to AID, it appears that IDCA will have rather more authority over AID than over any of the other components.

The President's message states that the IDCA Director will also prepare a "comprehensive foreign assistance budget" for submission to the Office of Management and Budget, after consultation with the Secretary of State. As we understand it, the IDCA Director's role with respect to non-IDCA budgets will be only to comment upon agency budget submissions to the Office of Management and Budget and to the President. He will also defend the overall foreign assistance budget before the Congress. This arrangement obviously provides him some opportunity to influence non-IDCA budget decisions while leaving basic budget authority in the responsible agencies and OMB.

The existing Presidential directive on the DCC and the President's reorganization message require the Director of IDCA, as the new Chairman of the DCC, to prepare an annual aid policy statement designed to integrate the different types of aid and non-aid policies affecting developing countries. In effect, this statement is intended to be a kind of annual development strategy statement. The statement is to be reviewed by the Policy Review Committee of the NSC and approved by the President. Some see this responsibility as an important potential source of authority for IDCA, providing it with a yardstick against which agency performance can be measured and through which agency policies and programs can be coordinated. However, much prior government experience with interdepartmental efforts to develop general strategy statements of various sorts suggests that it will be difficult to obtain agreement on a statement that will provide meaningful guidance on particular issues. Interagency differences tend to produce lowest-common-denominator statements subject to a variety of interpretations, despite the best intentions.

We would not argue against preparation of such comprehensive policy statements. The process of preparing them can have important values in forcing busy officials to think more broadly about their activities and in promoting the mutual education of those involved in the process. Moreover, at those relatively rare moments of basic change in development policy--for example, at the time of the decision in favor of basic human needs strategy--such statements can also provide a broad orientation for policies and programs. What we are arguing here, however, is that supervision of their preparation and implementation is unlikely to offer major leverage to the IDCA Director.

The IDCA Director's authority/to recommend appointment and removal of top officials in the IDCA's component agencies, will, of course, give him some significant authority within IDCA, provided his actions are, in fact, free of outside intervention.

The IDCA Director, like the AID Director before him, is to be named principal international development adviser to the President and the Secretary of State. Some see this Presidential connection as a key source of IDCA authority. The United States undoubtedly has major economic and geopolitical interests in the developing world which are of concern to Presidents. But foreign aid issues *per se* are not generally matters of high policy and questions of development policy and development coordination are even less likely to find a place on the crowded presidential agenda. The Presidential connection is, therefore, unlikely to strengthen significantly the power of the IDCA Director.

The creation of IDCA in itself will do little to increase the focus upon inter-program coordination. One approach to this problem would be to develop sectoral policy papers designed to provide guidance for both U.S. bilateral programs and U.S. participation in multilateral programs. AID officials have suggested the possible desirability of across-the-board policies on such subjects as environment, population, rural development, renewable energy and education. Of course, it should be recognized that policies applied to multilateral programs might very well have to be different from those applied to bilateral programs. The point of preparing such papers would not be the insistence on a kind of "foolish consistency" among all programs, but rather the development of well-thought-out strategies that consider relationships between programs. Developing such papers and strengthening the multiyear country papers will require more staff effort and, therefore, does potentially, run afoul of the President's decision to reorganize within existing personnel ceilings.

Finally, in this critique of IDCA, we shall turn more briefly to the question of whether the new organization offers greater promise than present arrangements for dealing with the three changes in the setting within which coordination takes place. The first change we identified was the growing importance of multilateral aid. The issue of who should manage U.S. participation in the multilateral development banks has been at the heart of the debate over reorganization, both because the coordination of multilateral bank and bilateral programs presents the major coordination questions and because only some transfer of authority over the banks appears to offer much prospect for enhancing the authority of the development coordinator.

The IDCA proposal makes two changes which seem to us to offer marginal prospects for improvement. The first is the fact that the Secretary of the Treasury will consult with the IDCA Director in the selection of U.S. Executive Directors and Deputy Directors of the multilateral development banks. If an understanding were to develop between the two officials that, for example, either the Executive Director or the Deputy Executive Director would be from IDCA, that could be an important change, even though Treasury retained authority to instruct the Executive Directors. It would enhance communication and the flow of information between IDCA and the banks. We are not aware, however, of any such intent.

A second change affecting the U.S. role in the banks is that the Director of IDCA will be required to provide advice to the U.S. Executive Directors of the banks on bank policies and programs, whereas the AID Administrator has had authority to provide such advice, but is not required to do so. That this change could provide a larger and higher quality flow of advice is suggested by experience with Latin American programs. The Assistant Administrator of AID for Latin America and the Caribbean has directed that priority attention be given to multilateral bank projects within his bureau. He also created a small coordination staff to ensure that the bureau makes an input into the project review process. As a consequence, both the quantity and quality of comments on Latin American projects are generally conceded to be superior to those produced by other bureaus.

To impose a general requirement for comment upon IDCA could, therefore, have similar effects for other areas. It should be noted, however, that the amount and quality of information on project planning which is available through the Inter-American Development Bank is better than for the other banks. Moreover, the basic fact remains that it is Treasury that instructs the U.S. representatives to the banks. This assignment of responsibility for management of participation in the Banks to Treasury or the Finance Ministry, while common, is by no means universal among industrial countries. In a number of countries the development agency plays a larger role.

The creation of IDCA has no direct relevance, positive or negative, to the need to develop a greater capability for macro analysis of country programs as the basis for more adequate judgments on AID and bank projects. AID has, under the Carter Administration, made some progress in this direction, altering its own organization to emphasize the regional over the functional bureaus. A major need seems to be the reconstitution of the U.S. capability for macro analysis of national economies and national development plans. The personnel ceiling imposed by the President in connection with his IDCA decision may adversely affect the prospects for recruiting the requisite talents.

The reorganization plan, taken by itself, makes no significant changes in the capability of the development coordinator to ensure priority attention to the development dimensions of non-aid economic decision making. On this question the charter of the IDCA Director is basically the same as the charter of the Chairman of the DCC. The problem in this area is essentially one of the adequate access to the relevant decision processes and adequate attention to IDCA's views. Access and influence are a function of power and information. The reorganization, as we have argued, increases the coordinator's power only marginally. Recruitment of some first-rate staff with specialized knowledge in trade, commodity issues and the like could enhance the influence of development considerations in administration debates on foreign economic policy. Experience suggests that progress on this problem will be an uphill battle under the best of circumstances.

To sum up, it seems quite evident that the reorganization plan by itself is likely to effect only relatively marginal improvements in the authority and in the instruments available to the development coordinator. In these circumstances, the quality of the IDCA Director and staff will be more than usually critical to the success of the enterprise. Their legitimacy and influence will have to be built to a significant extent on their demonstration of exceptional competence. Nonetheless, the creation of IDCA would provide a new opportunity with some new people to attempt what is, admittedly, a difficult task. We therefore support the reoganization plan provided that the hand of the IDCA Director is stengthened. We turn finally to some recommendations along those lines.

Recommendations

Because GAC's study of the problem is not yet complete, our recommendations must be viewed as very tentative. They are intended more to suggest possibilities for action than to offer exact prescriptions. We expect eventually to have several specific recommendations for improvement of the IDCA operation if the plan is approved. Here we will concentrate primarily upon possibilities for strengthening the plan.

The question of responsibility for the multilateral development banks is clearly central to the whole effort to improve coordination. It is an issue for which it is difficult to find a solution that preserves Treasury's proper role, but which also provides a meaningful increase in the role of the development coordinator. As a minimum proposal, we would suggest that consideration be given to making the U.S. Deputy Executive Director of each of the banks an IDCA representative. In this role, the deputy could be both an adviser to the Executive Director and a channel of communications in both directions between the Executive Director's office, IDCA, and AID.

One of the most promising potentials of the IDCA proposal is that, unlike the foreign assistance legislation of 1973 which created the DCC, it appears to rely much less upon committees to achieve coordination and much more upon the IDCA Director and a knowledgeable staff. While committees are an inescapable coordination device, the coordination function is much more likely to be effectively performed if it is based in an activist staff which attempts to relate to, and influence, ongoing decision processes of all kinds. For a variety of reasons already mentioned and some others as well, we believe that it would be desirable if the administration would lift somewhat its personnel ceiling.

Effective coordination is very likely to require more, rather than less, staff. Moreover, the imposition of the personnel ceiling means, as suggested earlier, that the largest part of the IDCA staff will very probably be drawn from AID. To do that will tend to defeat a major purpose of creating IDCA--separation of the coordination function from one of the principal agencies to be coordinated and establishment of IDCA's role as an honest broker. The payoff in increased efficiency and effectiveness from coordination comes, not from personnel savings, but from greater mutual reenforcement between and among programs and increased consistency in policy and programs.

We believe that the position of the IDCA Director could be strengthened if he controlled a contingency fund of significant magnitude. We are aware that Congress has been reluctant in recent years to provide a larger foreign aid contingency fund. Such a fund, however, would not necessarily involve any increase in foreign aid totals and could enhance the ability of the IDCA Director to respond to legitimate international political needs for foreign aid, without subordinating development goals to foreign policy requirements. It could also enhance his ability to exploit unexpected opportunities to relate U.S. aid efforts to multilateral efforts, giving him some potential leverage over both.

To conclude, the late Senator Humphrey and Congressman Zablocki opened a very useful debate when they introduced last year a bill to consolidate responsibility for development activities. We are rather disappointed in the outcome of that debate as represented by the Administration's reorganiztion proposal. However, we believe that, with an effort to find ways to strengthen the hand of the IDCA Director, the proposal could be made workable and that IDCA could make an important contribution to improved development coordination.