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**U.S. FOREIGN ASSISTANCE IN THE
POST-COLD WAR WORLD**

AGENCY FOR INTERNATIONAL DEVELOPMENT

NATIONAL PERFORMANCE REVIEW

Accompanying Report
September 1993

CONTENTS

SUMMARY

PART 1: CUTTING RED TAPE TO GET RESULTS

- AID01: Redefine and Focus AID's Mission and Priorities
- AID02: Curtail Spending, Funding, and Reporting Micromanagement
- AID03: Overhaul the AID Personnel System
- AID04: Let AID Line Managers Control Staffing Levels and Funds
- AID05: Improve the Contract and Procurement System

PART 2: CREATING INCENTIVES THROUGH MARKET MECHANISMS

- AID06: Reengineer AID Management Using an Innovation Fund

PART 3: EMPOWERING EMPLOYEES BY CREATING A QUALITY MANAGEMENT CULTURE

- AID07: Reengineer AID Project/Program Management System

PART 4: CREATING A BETTER GOVERNMENT THAT COSTS LESS

- AID08: Prepare for Mission Closure and Consolidation

PART 5: SUMMARY OF FISCAL ESTIMATES

PART 6: AGENCY REINVENTION ACTIVITIES

APPENDIX

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ABBREVIATIONS

AFSA	American Foreign Service Association
AID	Agency for International Development
ATIF	Americans Talk Issues Foundation
CBO	Congressional Budget Office
CEFMS	Corps of Engineers Financial Management System
CIA	Central Intelligence Agency
CP	Congressional Presentation
DA	Development Assistance
DC	District of Columbia
ESF	Economic Support Funds
FAA	Foreign Assistance Act
FAAS	Foreign Affairs Administrative Support
FS	Foreign Service
FSN	Foreign Service National
FTE	Full-Time Equivalent
GAO	General Accounting Office
GAP	Development Group for Alternative Policies
GS	Civil Service (General Schedule)
IAF	InterAmerican Foundation
IDI	International Development Intern
IDRC	International Development Research Centre
IRM	Information Resources Management
ISP	Information Systems Plan

LCE	Limited Career Extension
LWOP	Leave Without Pay
NGO	Non-Governmental Organization
NIA	Philippine National Irrigation Administration
NPR	National Performance Review
OIG	Office of the Inspector General
OMB	Office of Management and Budget
P.L.	Public Law
PSC	Personal Service Contractor
PVO	Private Voluntary Organization

SUMMARY

During the Cold War, the struggle between East and West framed international politics, and guided our foreign assistance programs. Now that the struggle is over and we no longer fear losing influence to the Soviets, we can now focus on the effectiveness of our international development programs.

A new set of profound challenges to U.S. national interests has replaced the Cold War prism through which the nation viewed international events. The new strategic threats, overpopulation and mass migration, environmental degradation, endemic poverty, and anarchy know no boundaries. Events far from our shores affect our citizens. The advent of new and diffuse challenges make it an imperative for the U.S. to rethink its role in a post-Cold War world.

The Agency for International Development (AID), created in 1961 to consolidate U.S. foreign assistance programs, has mirrored the uncertainties of the world during the past 5 years. The astonishing scope and speed of global change has accelerated an urgent need for a reassessment of AID's role in U.S. foreign affairs, and of its responsibilities in the changing international situation. The dramatic changes that have occurred since the end of the Cold War have led to charges that foreign aid and with it, AID itself, have become less relevant. Foreign assistance expenditures, seldom supported with unbridled public enthusiasm, face increasing scrutiny and demands for demonstrable results. Critical assessments of agency programs and operations have led AID to be perceived as a troubled agency. Scarce budgetary resources face rising pressures and competing demands at home. These external and internal challenges have lent added urgency to the task of reinventing AID.

AID currently employs 4,000 people and will use an estimated 7,000 personal service contractors to design and implement more than 2,000 projects. Field missions operate in more than 100 countries. The agency administers a fiscal year 1993 budget of more than \$7 billion.

With the demise of the Cold War, international development programs are becoming central to the new U.S. foreign policy agenda. Development has become the principal way to cope with the new strategic threats which challenge today's world.

The new Administrator of AID assumed his post in May of this year and pledged the entire agency as a reinvention laboratory for the National Performance Review (NPR), the only agency to do so. By doing so, AID has committed itself to fundamental reform.

Under the new administrator, AID will focus its development activities on sustainable development targeted toward the four critical areas of the environment, population and health, economic growth, and democracy. Essential tenets underlying future agency efforts include:

- AID must have a streamlined structure and procedures;
- AID must manage its programs to be effective and results-oriented;
- AID must utilize its greatest strength, its field missions, and integrate lessons learned from the field into programs worldwide as the agency pursues global objectives.

The NPR has isolated eight issues for discussion in this report, and made recommendations for further action. These issues and recommendation highlight fundamental issues facing the agency, as well as and key reinvention principles.

This report focuses on the critical need for redefinition of AID's core mission and priorities for the 1990s and beyond, for investment in the management systems critically needed to apply resources more effectively and efficiently; for reallocation of AID's human and other resources, and for reengineering of its core functions to more effectively serve the consumers of its services. The issues and initiatives discussed in the following section, coupled with agency reinvention initiatives described in section 3 of this report, demonstrate that government reinvention need not be confined to domestic agencies. Given the challenges that confront AID from within and without, it is clear that the agency can do no less than reinvent itself and its operations if it is to continue to function as this country's principal development assistance agency.

The issues discussed in this section of the report are organized and discussed by

reference to the four basic themes of the NPR report under corresponding headings as follows: Cutting Red Tape to Get Results, Creating Incentives Through Market Mechanisms, Empowering Employees by Creating a Quality Management Culture, and Creating a Better Government That Costs Less.

Cutting Red Tape to Get Results

This section proceeds from the premise that AID's reinvention requires the creation of a more mission-driven, results-oriented organization, freed from barriers that have prevented its efficient and effective governance, while assuring accountability for the performance of its mission. The problem at the heart of all of its other problems is that AID is burdened by too many responsibilities and expected to accomplish too many objectives. AID has not had a single, clearly defined and articulated strategic mission. Other external and internal control mechanisms have combined to deprive it of needed flexibility, including spending and funding limitations, and reporting and notification requirements. Its U.S. and foreign service national employees are one of AID's most important resources. In adapting to the challenges of transforming itself to meet post-Cold War obligations with diminished resources, basic workforce management and contracting policies must be reassessed.

Recommendations made in this section include the following:

- Enactment of comprehensive new foreign assistance program legislation.
- Reductions in reporting, spending and funding restrictions.
- Integration of the Foreign Service and Civil Service personnel systems.
- Extension of overseas assignments.
- Pilot programs to remove personnel ceilings.
- Reevaluation of extensive reliance on contractors.

Creating Incentives Through Market Mechanisms

This section proposes to expedite critically needed reinvention of key business processes by creating an innovation fund to finance investment in new, integrated management information and financial management systems. Recommendations discussed in this section include:

- Conduct of a rate-of-return analysis on proposed capital expenditures.
- Identification of projects from the Information Systems Plan for innovation fund investments.

Empowering Employees by Creating a Quality Management Culture

This section focuses on AID's project and program management system, a core business function of the agency. It describes structures, processes and incentives that focus heavily on the design of projects by AID employees and contractors and not enough on the contributions of the intended beneficiaries and the results of the project at hand. It also identifies processes and systems that fragment responsibility, with resulting loss of accountability for results. Finally, the report offers examples of best practices that can serve as models for AID projects, reflecting as they do reinvention principles including customer service, focus on results, decentralization, linkage of results to planning and budgeting, and elimination of rules and procedures that hinder the accomplishment of results, and accountability. Recommendations advanced in this section include:

- Designation of selected AID missions for pilot projects to experiment with innovative approaches.
- Reevaluation of incentive structures to reward innovation and project results.
- Continuing reviews of project accomplishments and results.

Creating a Better Government That Costs Less

This section focuses on the rightsizing, consolidation and redirection of resources throughout AID, needed to eliminate duplication of effort and function, and to better target

resources towards areas and activities most likely to produce successful results.

At issue is whether AID needs to maintain a field presence in more than 100 countries; whether assistance programs contain adequate incentives for recipients to succeed and graduate from assistance programs; and whether resources that support AID missions can be put to more effective use through leveraging of services provided by other agencies.

Recommendations offered include the following:

- Consolidation of AID field presence by fiscal year 1996.
- Establishment of graduation criteria and mechanisms in all assistance programs.
- Consolidation of administrative functions with those of the Department of State.

Agency Reinvention Activities

Pursuant to the administrator's designation of the entire agency as a reinvention laboratory, AID has created a Quality Council to coordinate and initiate reinvention initiatives. The third section of the report describes measures already taken and planned to accomplish what its Administrator has characterized as the radical changes needed to reform AID and make it relevant to this country's post-Cold War foreign policy.

Fiscal Impact Summary

This report focuses primarily on changes needed to improve the management and operation of agency programs and operations across the board. The final section of this report summarizes the fiscal impact of any recommendation for which an estimate can be provided at this time.

PART I: CUTTING RED TAPE TO GET RESULTS

AID01: REDEFINE AND FOCUS AID'S MISSION AND PRIORITIES

Background

Few would argue that public organizations work best when they have one clear mission, and that clarity of mission may be a government organization's single most important asset.¹ The Agency for International Development (AID) has been cited as a prime example of a failed exercise in mission-driven government, burdened as the agency has been by several different, and sometimes conflicting, missions.²

Other reviewers inside and outside AID have documented serious problems in major agency programs and operations for more than a decade.³ In 1992, a presidential commission recommended that the agency be merged into the State Department; a 1989 Congressional task force and others have called for the agency to be abolished and to be replaced by other variously described public or quasi-public entities.⁴ While others have stopped short of recommending the agency's outright abolishment, the consensus of reviewers and informed commentators is that AID cannot continue to function as it has in the past.

Reinvention is not simply an option or a challenge for AID, it is an imperative. For reasons discussed further and elsewhere in this report, the agency cannot succeed in reinvention without some help from other agencies and Congress.

The new administrator of AID, J. Brian Atwood, acknowledged the dimensions of the problem in testimony at his Senate confirmation hearing in April 1993:

We have confirmed what other studies have concluded: AID is burdened by a surfeit of goals and objectives, encumbered by excessive red tape, and beaten down by poor morale. ... [I]t will not be business as usual at AID if I am confirmed for this position. The changes I will be proposing will be radical departures from past

practices. ... [R]adical changes are the only way to regain the faith of the Congress and the country in an enterprise which is central to our nation's international agenda. We cannot afford to fail...⁵

The problem at the heart of all of AID's other problems, observers and employees agree, is that it is burdened by too many responsibilities and expected to accomplish too many objectives, particularly for an agency of its limited size and resources. In short, AID has not had a single, clearly defined and articulated strategic mission.

The Foreign Assistance Act of 1961, amendments to the act enacted over a period of 30 years, and other laws implemented by AID, define approximately 30 to 40 different responsibilities to be carried out by the agency.⁶ Included among its statutory developmental assistance responsibilities are agriculture, rural development and nutrition; population and health; education and human resource development; energy; private sector development; integration of women into national economies; human rights; and environment and natural resources.⁷ Recent legislation added responsibilities for aid to the former Soviet Union and Eastern Europe, and authorized the use of developmental assistance funds for capital projects, including investment promotion.⁸

By 1989, one agency document identified 75 different mission priorities.⁹ The proliferation of a large number of statutorily prescribed responsibilities reflects varied policy directions and emphases promoted by successive administrations, AID administrators, and Congress, as well as those of interest groups advocating different priorities corresponding to their individual areas of specialization.

This accumulation has led to what the General Accounting Office (GAO) has described as "a complicated and incoherent set of objectives with no clear priorities."¹⁰ The only consistent, but much-criticized, assignment of priorities has been accomplished through the use of spending "earmarks" imposed by successive Congresses.¹¹

Commentators, including AID employees, also assert that the proliferation of responsibilities contributes to confused or conflicting messages about the agency's mission. The GAO has concurred in that critique, stating that while each of the multiple statutory responsibilities has merit, the multiple objectives in laws implemented by AID create

confusion as to Congress' intent for the direction of the foreign assistance program, add to the tension between the executive and legislative branches on program priorities, and reduce the ability to hold AID accountable for attaining any particular objective.¹² Among examples cited of AID activities at cross-purposes with long-term, "Third World" development are the agency's direct promotion of U.S. private sector interests and its implementation of Economic Support Fund programs for purposes of short-term geo-political objectives.¹³

Critics are virtually unanimous that so long as AID continues to exist, there is an urgent need for its mission to be simplified and its priorities and objectives to be clearly defined. It should be noted that in interviews and research on this topic, the terms "mission," "principles," "objectives," "strategy," and related concepts are frequently used interchangeably, suggesting a lack of agreement as to what these terms signify. The clear consensus in the past 5 years, however, is that AID cannot continue to do so many things and do them all well.

Comprehensive new authorizing legislation has not been enacted by Congress since 1985. Numerous efforts to enact such legislation in the intervening period have met with failure.¹⁴ The result has been that annual appropriation acts have added responsibilities piecemeal and assigned priorities at will through the earmarking process.

Discussions about AID's mission have intensified in recent years and months. They are occurring in several broader contexts. First and foremost are the changed geo-political circumstances of the post-Cold War period. Second, a high-level administration task force is reviewing the entire U.S. government foreign assistance structure, including AID, in light of current and emerging global conditions. Foreign assistance experts have called for such a review, which is expected to examine the U.S. post-Cold War foreign assistance policy, the roles and responsibilities of the agencies and organizations implementing that policy, the dispersion of overseas programs (including trade and export promotion activities), the need for consolidation or elimination of overlapping and duplicative functions, the need for improved interagency coordination of foreign assistance activities and related issues.¹⁵

As part of that review, Secretary of State Warren Christopher directed Deputy

Secretary of State Clifton R. Wharton, Jr. to review the goals and objectives of AID. Deputy Secretary Wharton and Administrator Atwood testified about the status of that report (known as the "Wharton report"), and the broader review of all U.S. foreign assistance programs, before a subcommittee of the Senate Foreign Affairs Committee. The Subcommittee chairman, Senator Paul Sarbanes, expressed a desire for expeditious completion of these reports to provide a basis for enacting new authorizing legislation. Proposed legislation to authorize AID operations for fiscal year 1994, reported out of the House Committee on Foreign Affairs in June 1993, would require the President to submit a plan for reform of U.S. foreign assistance programs and AID to Congress within 60 days of the bill's enactment into law.

Secretary Christopher presented a fiscal year 1994 "transition" foreign assistance budget that he said would begin the process of redirecting U.S. foreign policy, establish new priorities, and restructure foreign policy institutions.¹⁶ The foreign policy will emphasize three themes, implemented initially by a fiscal year 1994 budget submission organized around five objectives.¹⁷ This focus on objectives, rather than solely on funding inputs, is a major departure from previous budget submissions.

Administrator Atwood has indicated that his agency's primary mission should be long-term, sustainable economic development, with four strategic components:

- aiding the environment,
- addressing population and health,
- building democracy, and
- encouraging economic growth.¹⁸

He has spoken of the need for AID to carry out these responsibilities in partnerships with other government, non-government, and private voluntary organizations.¹⁹

Administrator Atwood's four-pronged redefinition of AID's mission could be the basis for a productive dialogue with Congress on a new legislative foundation for agency operations. His conception largely mirrors the four elements proposed for U.S. international development efforts by the 1989 House Foreign Affairs Committee Task Force on Foreign Assistance.²⁰

It bears noting, however, that challenges remain in implementing the administrator's redefined AID mission. He has publicly expressed the view that AID cannot be all things to all people. He has also acknowledged the risks inherent in efforts to define a clearer mission based on the concept of "sustainable development," a term that he recognizes "has taken on myriad meanings and has been invoked in many contexts."²¹ Despite the comparatively small portion of the federal budget devoted to foreign aid,²² U.S. foreign assistance programs suffer from a lack of widespread public support. In AID's case, this difficulty is compounded by its history of troubled programs and operations, problems aggravated by the lack of a clear and coherent mission and a manageable set of priorities.

These factors underline the significance of expressing how a redefined mission predicated substantially on "sustainable development" simplifies AID's mission, rather than merely rebundling AID's current programs and objectives. A clear articulation of the scope of any simplified, four-pronged mission is also needed to prepare operational strategies for identification of unrelated and unnecessary programs and operations, and to conduct strategic planning. Even assuming that AID does move in new directions, the agency is likely to be subject to external pressures from groups and organizations that have benefited from AID support in the past. While there is broad public and private sector support for simplifying AID's mission in theory, practical implementation may not be easy.

Due to budget cuts and adjustments to changed post-Cold War circumstances, the administrator has committed the agency to reducing the number of country programs, missions, and projects. It may be that this measure will suffice to make the agency's current roster of programs and operations more manageable.

The AID administrator has also launched a comprehensive review of all agency programs and operational procedures. It is not clear, however, whether the four-pronged mission advanced by the new administrator, coupled with the increased partnerships he has spoken of, will entail significant reductions in agency programs and activities. This question needs to be clearly addressed and resolved. It warrants serious scrutiny in view of several factors, including the agency's amply documented problems in managing its current array of programs, a shrinking personnel and budget resource base, and the availability of

many other U.S. and international development assistance organizations equally or better positioned to provide different types of assistance to developing nations.

In any event, without concerted and cooperative effort between the executive and legislative branches to embody a clearer, more manageable AID mandate into law, and restraint in adding new legislative mandates beyond the agency's capacity to handle them, AID's future ability to effectively manage foreign assistance programs and its own operations cannot be assured. The agency will continue to be strained beyond its capacity to meet challenges too numerous to be met. It will struggle to improve its serious internal management deficiencies, while continued budgetary pressures threaten its funding base and already-low levels of public support erode further.

Recommendations

- 1. The AID administrator should conduct initiate a zero-based, bottom-up review of all AID programs and operations, identifying programs and operations that (a) do not directly support a clearly defined, four-pronged mission of sustainable development, and (b) can be undertaken by other assistance providers with a comparative advantage vis-a-vis AID.**

Past evaluations of AID programs and operations bear out that the agency cannot do all that it is now trying to do and do it well. It is not yet clear that doing the same number of things, but in fewer countries, will make AID programs more effective and produce better results. In any event, AID's administrator has expressed the need for a redefined mission, reduced and simplified operations, and leveraging of resources through partnerships with assistance providers outside AID. An assessment of all AID programs and operations, based on these goals and clear operational strategies for accomplishing the mission and four priorities defined by the administrator, should assist in identifying

programs and operations that warrant reduction, elimination, or transfer to other agencies, pursuant to the current review of governmentwide foreign assistance activities.

2. Congress should enact comprehensive new authorizing legislation to replace the Foreign Assistance Act of 1961, as amended.

While some redirection of AID programs and operations can begin without a statutory redefinition of AID's mission, reinvention can only succeed if it begins at the beginning, i.e., with a clear redefinition in law of a more discrete, consistent, and manageable agency mission. The AID Administrator's concept, with a clear understanding of the meaning of "sustainable development" and other critical terms, appears to be a formulation around which a consensus could emerge. This process should also include the identification and elimination, or transfer, of any activities that do not relate to and directly advance AID's principal mission. Such legislative action is urgently needed to permit AID to succeed with other reform initiatives and enable more effective, long term planning and resource allocation.

3. The AID administrator should initiate the development of a strategic vision of what the agency should look like as it enters the 21st century.

Each agency component should develop a vision statement proceeding directly from and supporting the larger agency vision and mission.

4. The AID administrator should assure that a comprehensive review is conducted of all agency directives and other internal and public issuances to assure that they clearly express the agency's mission, priorities, and objectives in clear and

consistent terms.

A process should be established to assure that future internal and external issuances similarly express the agency's mission, priorities, and objectives. Reported findings of as many as 75 different priorities in agency guidance indicate that the agency has compounded problems in the past for its employees and others by defining too many responsibilities for an agency of its size and resources to manage.

Implications

The efficacy of the new administrator's efforts to articulate a clearer mission depends in part on the completion of the current administration review of foreign assistance policy and programs across the government. The administrator intends to continue with his efforts to define a streamlined mission for AID (in keeping with his assessment that the agency cannot be all things to all people), and he can implement his goals and priorities administratively to a limited extent without legislative reform, through clear and consistent policy guidance, resource reallocations, leveraging resources, and other measures. Without legislative reform, however, the agency will be subject to political and other pressures to implement the multiple responsibilities and priorities in the current law.

Fiscal Impact

The focus of the recommendations made in this paper is on improving results. Cost savings may result from congressional action limiting the scope of AID's responsibilities, but no projections can be made at this time as to the likelihood or amounts of any such savings. Implementation of these recommendations should produce increased efficiency in agency operations, but the actual fiscal impact of resulting changes depends on the nature

and timing of their implementation and cannot be estimated.

Endnotes

1. (Reading: Addison-Wesley, 1992), pp. 130-131.
2. Ibid.
3. See, for example, AID's Administrative and Management Problems in Providing Foreign Economic Assistance," Hearing, 97th Cong., 1st Sess., Oct. 6, 1981; U.S. Comptroller General, *AID Management: Strategic Management Can Help AID Face Current and Future Challenges*, GAO/NSIAD-92-100 (Washington, D.C.: General Accounting Office, March 1992); The President's Commission on the Management of AID Programs (the "Ferris Commission"), *Report to the President: An Action Plan* (Washington, D.C., April 1992); Office of Management and Budget-AID SWAT Team Report, *Improving Management at the Agency for International Development* (Washington, D.C., 1992).
4. Ferris Commission report, p. 12.
5. U.S. Congress, Senate Foreign Relations Committee, Opening Statement (Washington, D.C., April 29, 1993).
6. Public Law 87-195, as amended.
7. Other responsibilities include: tropical forests; protection of endangered species; narcotics control; American schools and hospitals abroad; housing guaranties; Economic Support Fund implementation; promoting democracy, restoration of peace, and justice reform; disaster assistance and rehabilitation; refugee assistance; special African and Central American development programs; promotion of U.S. land grant and other universities; promotion of U.S. private sector trade and business opportunities.
8. Support for East European Democracy (SEED) Act of 1989, Public Law 101-179 (November 28, 1989), as implemented by Executive Order 12703 (February 20, 1990); FREEDOM Support Act, Public Law 102-511, Title II (October 24, 1992); Jobs Through Exports Act of 1992, P.L. 102-549, Title III (October 28, 1992).
9. Hamilton-Gilman Report.
10. U.S. Comptroller General, *Foreign Assistance Economic Issues*, GAO/OGC-93-25TR (General Accounting Office: Washington, D.C., December 1992), p. 8.
11. Discussed in more detail at pp. 10-18, below.

12. U.S. Congress, Senate Committee on Appropriations, Subcommittee on Foreign Operations, Persistent Management Problems Persist at the Agency for International Development, testimony by Frank C. Conahan, May 1, 1992; see also, Comptroller General reports, *AID Management: Strategic Management Can Help AID Face Current and Future Challenges*, p. 10; and *Foreign Assistance Economic Issues*, p.p. 4-5.

13. Ferris Commission Report, p. 13; Hellinger, et al, pp. 49-79.

14. See, e.g., Congressional Research Service, *Foreign Assistance and Congressional Debate: International Challenges, Domestic Concerns, Decisions Deferred*, CRS Issue Brief 92-371 F (Washington, D.C., April 17, 1992).

15. Ferris Commission report, pp. 10-11.

16. The International Development Coordination Agency and the Development Coordination Committee, of which AID is chair and member, respectively, are widely acknowledge to exist in name only.

17. Congressional Research Service, *Foreign Aid: Clinton Administration Policy and Budget Proposals*, CRS Issue Brief IB93060 (Washington, D.C., April 16, 1993).

18. The themes of revitalizing the American economy, modernizing security structures and encouraging democracy around the world, will be organized around the objectives of building democracy, promoting and maintaining peace, promoting economic growth and sustainable development, addressing global problems, and providing humanitarian assistance. Ibid.

19. Speech to International Society on International Development (Washington, D.C., June 9, 1993). Parenthetically, these themes echo a vision advanced widely in 1992 by now-Vice President Al Gore, i.e., that the central organizing principle of post-Cold War era should be protection of the earth's environment while fostering economic progress. See *Earth in the Balance* (New York: Houghton Mifflin, 1992), p. 274.

20. Ibid.

21. Hamilton-Gilman report, pp. 29-31.

22. U.S. foreign assistance as a percentage of the gross national product ranks next to last in the ranks of major international assistance donors.

PART 1: CUTTING RED TAPE TO GET RESULTS**AID02: CURTAIL SPENDING, FUNDING, AND REPORTING
MICROMANAGEMENT****Background**

Major reviews of the Agency for International Development (AID) in the past 5 years, as well as comments by AID employees, point to several spending and funding mechanisms, reporting requirements and directives as continuing obstacles affecting the agency's economy, efficiency, and effectiveness. Chief among these are (1) earmarking of funds, (2) appropriations of program funding in 1-year increments and multiple accounts, and (3) external and internal reporting and notification requirements. Relief from these burdens in legislation governing AID operations, legislative committee reports accompanying such legislation, and administrative procedures would enhance the agency's ability to carry out its mission more effectively and efficiently.

Earmarking. This practice is characterized by statutory directions on how AID will spend appropriated funds. Funds are earmarked in different ways. These include limitations on the amount of money that can be spent, specifications of minimum amounts to be spent, or directions as to how money will be spent. Funds are also earmarked by reference to particular countries, functional accounts (e.g., environment and energy, education, microenterprise activities, and capital projects), staffing levels, and program assistance delivery mechanisms.

Funding earmarks grew markedly in AID appropriations bills during the 1980s. They have not been confined to legislation, however. AID officials cite several appropriations bills that were accompanied by lengthy conference reports by congressional committees, requesting or directing the expenditure of funds in particular ways.¹ AID officials recognize that such reports do not have the force of law. Nevertheless, they feel constrained to implement requests or directions on funding allocations to avoid problems with Congress.

The most heavily earmarked account has been in the Economic Support Fund (ESF) category, representing approximately 25 percent of AID's program assistance budget. In recent years, approximately 85 percent of ESF funding has been legislatively allocated for economic assistance to Israel and Egypt, known as the "Camp David" countries. In fiscal year 1991, earmarks accounted for 60 percent of AID's overall program assistance budget. While that percentage has declined somewhat in the past 2 fiscal years, earmarks still apply to more than 50 percent of appropriated funds for AID programs. The report from one appropriations committee accompanying the fiscal year 1993 appropriation included 9 single-spaced pages effectively directing funding allocations for a variety of countries and functions.²

AID officials and outside critics are in general agreement that the earmarking of funds is a significant obstacle to the flexibility needed by the agency to accomplish its mission efficiently and effectively. Earmarks direct funds to certain countries, projects, or recipients at the expense of others determined to be more in need or more likely to succeed. In addition, it is more difficult to exert leverage on, and enforce reasonable and prudent controls over, designated recipients of earmarked funds because their funding levels are assured.

A recent congressional task force concluded: "Removing earmarks would enable more effective Congressional oversight, because Congress could focus on *program results* rather than relying on earmarks and associated prohibitions, conditions and reporting requirements."³ As indicated by this group and others, elimination or substantial reduction of earmarks is consistent with, and would advance, an important goal of government reinvention efforts. H.R. 2295, proposing AID appropriations for fiscal year 1994, would, if passed, eliminate program funding earmarks.

Appropriations. Congress appropriates AID's development assistance funding for a one-year period.⁴ This appropriations funding cycle inhibits the kind of results-driven budget system envisioned by government reinvention. AID employees acknowledge that 1-year appropriations encourage the obligation of funds without adequate planning; uncertainties about funding availability from year to year also reportedly disrupt project

continuity. While Congress moved in fiscal year 1993 to consolidate most AID development assistance funding from multiple accounts into just two, the consolidation of all development assistance into one account would significantly improve the agency's ability to transfer funding more quickly and efficiently to priority, high-performing projects and programs.

Reports and notifications. A third burden on AID operations consistently identified by agency officials and outside reviewers is the number and volume of reporting requirements imposed in foreign assistance-related legislation and legislative reports.⁵ Reporting and notification requirements imposed by Congress fall into three general categories: (1) notifications, advising Congress on actions, determinations, or other events as they occur; (2) periodic reports; and (3) one-time reports. These directives are found in authorizing and appropriations legislation, and in the accompanying and often voluminous committee reports. AID employees recognize that reporting and notification directives contained in the reports are not legally binding, especially when framed as requests; however, ignoring such directives and requests is regarded as inadvisable.

No one disputes the need for effective congressional oversight of AID programs and operations, viewed by members of Congress as an important tool to obtain information about and oversee executive branch operations. However, the consensus is that the proliferation of such requirements grew largely out of policy differences between Congress and the executive branch during the 1980s, and the continued inability of the two branches to clearly define, focus, and set priorities for foreign assistance policy.⁶ Pursuant to the goal of eliminating undue constraints on mission accomplishment, it must be asked (1) whether reporting and notification requirements imposed on AID at every stage of program operations reflect an undue focus on inputs and processes, rather than results accomplished by agency programs and operations; and (2) whether the number of required reports, their frequency, and the resources expended in their preparation divert already-decreasing staff and budget resources from more productive, mission-oriented activities.

AID must submit approximately 60 reports to Congress in fiscal year 1993, divided nearly evenly between one-time and periodic reports. At least six periodic reports can be

identified for possible elimination, based on a lack of continued utility. A larger reporting burden is imposed in connection with congressional notifications, including what are known as country notifications and technical notifications. They include notifications to congressional committees made in advance of specified funding decisions, project changes, reprogramming decisions and other program activities.

By law, AID must notify Congress of every proposed project obligation in excess of amounts previously justified in AID budget documents before obligating funds for these activities.⁷ Notifications are sent to at least four congressional committees and must precede the obligations involved by at least 15 days. During this period, members place "holds" on the proposed obligations for varying periods of time.

AID sources report that the agency prepares and submits an average of 1,000 congressional notifications per year. An estimated 35 to 50 holds are placed on obligations in any one year. AID sources indicate that the notification process costs an estimated minimum of \$185,000 and four work years of staff time. The office responsible for coordinating and sending reports to congress estimates that from 1 to 11 (and possibly more) people review and clear each notification. Achieving reductions in the levels of review on these reports would still leave their volume and frequency, as well as the length of the waiting period before AID can proceed to implement funding and other decisions open to question.

The report on a 1988 congressional study of foreign assistance reporting requirements concluded that the number of foreign aid reporting requirements could be reduced by as much as one-half through consolidation, repeal of unnecessary or low-interest requirements, or repeal of obsolete requirements. The agency's Congressional Presentation (CP) document received special mention. AID reported that it devoted approximately 120 work-years and cost over \$9 million to assemble. The report stated that a consensus existed among numerous legislative and executive branch officials interviewed that substantial portions of the CP could be eliminated.⁸ AID has made some progress since then in reducing the size of the CP.

In addition to the reports required to be submitted to Congress, AID officials and

employees have also identified a proliferation of administrative reporting requirements and procedural directive systems as impediments to organizational efficiency and effectiveness. New AID Administrator J. Brian Atwood summarized the nature of the problem and the challenge as follows:

...our failures in the past have produced overregulation in the present. We have spent more time on paperwork than people work. AID personnel have become more concerned with process than development. The first thought that should come to the mind of an AID project officer should not be '[H]ave I filled the forms out right?' It should be '[W]hat will this project achieve?' After that question is answered, we should then turn to accountability -- and we should be accountable.⁹

A new AID Quality Council is coordinating an agencywide review of recurring reporting requirements with a view towards consolidation or elimination of reports. A mission in Africa, for example, recently compiled a list of approximately 46 reports that African field posts submit to AID in Washington on different periodic bases each year. Some of these reports, it should be noted, implement statutory or regulatory requirements. The agency's Policy Directorate has recently undertaken a comprehensive revision of the agency's 33-volume handbook system, which has not been substantially updated for nearly a decade. The agency's Office of Inspector General (OIG) agrees with agency officials that at least some of the agency's internal directives and reporting requirements have outlived their usefulness, impose costs in excess of the benefits derived, or otherwise impede the agency's effectiveness and efficiency.

Following enactment of congressional appropriations, quarterly apportionments of funds must be made by OMB before funds can be obligated by an agency. Except for Economic Support Fund (ESF) monies, apportionments of funds to AID are made by the Office of Management and Budget (OMB) in consultation with the agency. ESF funds are apportioned on a country-by-country basis for obligation by AID. ESF apportionments are cleared in advance by the State Department.

AID's history of substantial management problems led to the formation in 1991 of what became known as the Joint AID-OMB SWAT Team, which was tasked with a

comprehensive review of the agency's operations. The resulting report by the reviewers from both agencies led to 30 recommendations covering virtually every aspect of the agency's operations.

The quarterly apportionment process provides OMB with an opportunity to evaluate AID's progress toward the management reforms it committed to make after the joint review. While history suggests that OMB's diligence in apportioning AID appropriations has not been misplaced, progress by AID in implementing SWAT Team recommendations and other reforms (e.g., improved program planning and evaluation, information and financial management, portfolio and contract management, and timelier obligation of funds) could enable some reduction in reporting and documentation currently associated with the apportionment process.

Recommendations

- 1. Congress should eliminate or reduce earmarks on AID development assistance appropriations.**

This recommendation would require an end to earmarks by Congress in future appropriations legislation. Elimination of earmarks, along with establishment of a single budget category for all appropriated development assistance funds,¹⁰ would significantly reduce AID's management load in tracking all obligations by separate category and account, and could result in a significant reduction of in-house staff devoted to such activities.¹¹

- 2. Congress should appropriate funding for AID development assistance programs on a 2 year or "no year" basis.**

Implementation of this recommendation would require congressional specification of the appropriate funding period in future appropriations legislation.

3. **Congress should appropriate AID development assistance funds as part of a single account.**

Implementation of this recommendation could be accomplished with the submission of an AID development assistance funding request in a unified account, followed by Congressional appropriation of funds in that single account category.

4. **The AID administrator and Congress should reduce reporting and notification requirements.**

The administrator and Congress should move to implement recommendations made in the 1988 report of the Committee on Foreign Affairs on foreign assistance reporting requirements, and consolidate, reduce, eliminate or streamline unduly costly, burdensome, and obsolete reporting and notification requirements, with particular emphasis on the Congressional Presentation report and one-time notifications. This recommendation could be accomplished by one or more of the following measures: (1) amendment of the pertinent reporting and notification provisions in the Foreign Assistance Act of 1961, Public Law 87-195, as amended; (2) deletion of affected reports and notifications pending replacement of the Act with new legislation recommended elsewhere in this report;¹² (3) cessation or limitation of new reporting requirements in future authorization and appropriations acts, and in committee reports accompanying such legislation; or (4) use of technology to simplify the report preparation and transmittal process.

5. **The AID administrator should assure completion of a complete a zero-based review of all internal agency reporting requirements and procedural directives elimination of outdated, unduly burdensome, non-cost-effective requirements, and establishment of controls over the initiation of new requirements.**

AID's Policy Directorate and its new Quality Council are already making progress on this initiative. In the process, directorate officials are attempting to strengthen channels of communication with the agency OIG. For its part, the OIG has expressed a willingness to assist AID employees in the identification of procedural impediments to the most effective and efficient accomplishment of the agency's mission.

6. **AID should develop a results-driven performance measurement system capable of documenting that development assistance funds are being expended against feasible and measurable performance goals.**

Such a system is needed to assure accountability for AID's discretionary allocations of non-earmarked program funds.

Implications

Implementation of the recommended measures will provide AID with much-needed flexibility, and the ability to reallocate staff as it moves toward the goal of becoming a more effectively and efficiently managed mission-driven, results-oriented agency.

Fiscal Impact

The primary impact of these recommendations is expected to be more efficient allocation of budgetary and human resources.

Endnotes

1. U.S. Senate, Committee on Appropriations, S. Rept. 102-419, 102nd Cong., 2nd Sess., September 23, 1992.

2. Ibid.

3. Ibid. Emphasis supplied.

4. AID's Development Fund for Africa and Economic Support Fund accounts are funded for a 2-year period; assistance to the former Soviet Union and Eastern Europe is funded on a "no-year" basis, i.e., available until expended.

5. U.S. House of Representatives, Committee on Foreign Affairs, Report of the Task Force on Foreign Assistance (Hamilton-Gilman Report) (Washington, D.C., February 1989), pp. 31-32, 39-40; The President's Commission on the Management of AID Programs (Ferris Commission), *Report to the President: An Action Plan* (Washington, D.C. April 1992); Agency for International Development, Washington, D.C., interviews with selected employees, May-July, 1993.

6. Hamilton-Gilman report, p. 7.

7. The Foreign Assistance Act of 1961, Public Law . 87-195, Sec. 6234A; and The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993, Public Law 102-391, Sec. 522.

8. Hamilton-Gilman Report, p. 4.

9. U.S. Senate, Committee on Appropriations, S. Rept. 102-419, 102nd Cong., 2nd Sess., September 23, 1992.

10. See recommendation three.

11. Ferris Commission, p. 13.

12. See AID01.

PART 1: CUTTING RED TAPE TO GET RESULTS**AID03: OVERHAUL THE AGENCY FOR INTERNATIONAL DEVELOPMENT
PERSONNEL SYSTEM****Background**

Personnel management issues are reported as problems in studies about the Agency for International Development (AID) and in interviews with AID staff. Complaints reflected in this report concerned the conflicts between the Foreign and Civil Service systems, workforce diversity, recruitment, assignment, training, evaluation, personnel ceilings, and overseas support.

AID currently maintains three distinct personnel systems to manage its direct-hire employees. These are the Foreign Service (FS), the Civil Service (GS), and the Foreign Service National (FSN) systems. Fully incorporated into AID in 1980, the Foreign Service principally manages staff at overseas posts and senior management positions in Washington.¹ In 1980, every position in Washington was identified as either a GS or FS position. The Civil Service is used for support staff, technical experts, and some senior management positions in Washington. Except in limited circumstances, GS employees are not assigned abroad, although they can travel overseas. Foreign Service National Employees are non-American citizens working at overseas posts.

AID has approximately 1,700 Foreign Service employees--approximately 1,100 overseas and 600 in Washington. All of AID's nearly 1,000 Foreign Service Nationals serve overseas. All of AID's more than 1,500 Civil Service employees serve in the United States. Besides its full-time employees, AID will employ between 7,000 and 8,000 personal service contractors (PSCs) in fiscal year 1993, primarily overseas, to perform a wide range of duties. These include project implementation, evaluation, monitoring, and other tasks which do not statutorily require performance by a direct-hire employee. About ten percent

of the PSC workforce are United States citizens.

Workforce management has been raised as a problem at AID in most of the major studies of the agency. The AID personnel system has been criticized as complex, costly and unsuited to accomplishing the mission of the agency.² The 1992 President's Commission on the Management of AID Programs (The Ferris Report) summed up the situation by stating: "AID needs to change the ways it recruits, assigns, trains and develops its staff."³

Recent responses to a worldwide information cable suggested strong dissatisfaction with AID's personnel system.⁴ One post stated, "The personnel system is hopelessly antiquated, slow, perverse, and unproductive." The Foreign Service Evaluation system came in for special criticism, with one post suggesting that it needed to be revised to improve morale, and that "missions are almost put out of business in April/May each year in order to complete the requirements." Another post criticized the evaluation process because it is "time consuming, expensive and--most importantly--does not work." One employee suggested that staff should be allowed to evaluate managers. Another post noted the lack of minorities in decision-making roles. In response to this criticism, AID is developing a new evaluation system.

Foreign Service-Civil Service. Operation of the dual Foreign Service/Civil Service system was cited often in recent analyses of the agency and in interviews (both inside and outside AID) as a source of morale problems, management difficulties, rigidity, and wasteful bureaucracy. Important differences exist between the two systems because they are designed to fill different needs. The Foreign Service is largely a closed "up or out" system. Employees typically come in through the bottom, similar to the military, and advance upward through the grades. If they become stalled in one class for longer than a certain period they come up against the Foreign Service-wide "time in class" rules and are subject to separation. In the past, however, limited career extensions (LCEs) have been almost routinely granted, extending many senior employees beyond their time in class, and contributing to a personnel structure already criticized as top heavy. In contrast, the Civil Service can be entered at any level through open competition but advancement is only

possible if a position at the next grade is available.

The compensation structure of the two systems differs in ways that bring them into conflict. Foreign Service employees are compensated on a "rank-in-person" basis rather than "rank-in-job" as in the Civil Service. The rank-in-person system was designed to accommodate the needs of a rotational assignment system. The Civil Service system, on the other hand, is designed to focus greater levels of specialization in the workforce. Civil Service salary structure is based on traditional measures, like specialist skills, breadth of responsibility, and number and type of employee supervised. Foreign Service employees advance through the results of an annual performance review process. These two systems often collide, especially where they coexist in the same unit. For instance, Civil Service employees serving side-by-side with headquarters Foreign Service staff have more difficulty receiving promotions for similar work if they do not have supervisory responsibilities. They are reviewed based on different standards and systems. Starting in 1980, a certain number of positions in Washington were reserved for Foreign Service staff.⁵

The two systems have different types of probationary periods. AID career Foreign Service staff are tenured. To achieve tenure the employee must, within five years, complete at least two "fully successful" years overseas, receive satisfactory proficiency in a relevant language, and be reviewed by a tenure board. Tenure boards meet twice a year. During the most recent board deliberations three employees were recommended for separation and five were deferred for additional evaluation. The Civil Service has a three year "career conditional" period after which career status is conferred. It should be noted that AID has authority to grant non-tenured Foreign Service appointments of up to five years. The Foreign Service tenure system has been criticized for impeding the agency's ability to respond to the changing development priorities of the 1990s by protecting the interests of staff with skills less suited to new challenges.

A workable example of a unified foreign affairs personnel system exists. The Central Intelligence Agency (CIA) maintains a Civil Service-based unitary personnel system that is highly responsive to the need for flexibility in overseas assignments. The CIA assigns staff both in the United States and abroad, often in situations of extreme hardship.

There are no restrictions as to geographic assignment, employees carry rank-in-person, and retirement compensation relates to months of *actual* field or hardship service.⁶

Length of Overseas Assignment. Concerns were raised during the interview process that overseas tours at AID are currently too short. Foreign Service employees serve two to four year tours, depending on the post. This assignment structure is seen as having a major negative impact on staff effectiveness, program continuity, and transfer and training costs, the concern being that staff have really just become effective when their assignments end. The current system does not realize a full return on the overhead investments that the agency makes in its employees.

Foreign Service Assignments. The Foreign Service assignment process was criticized as unresponsive to the needs of the agency and as unfair to the employees who are subject to it. The Ferris Commission report cited the informal assignment process that has developed, noting that the bulk of the assignments are negotiated without the participation of the personnel office. Critics contend that only the less desirable assignments are made according to the established guidelines.⁷

International Development Intern Program. The International Development Intern (IDI) program is a proven success. The number of positions funded each year, however, has unfortunately fluctuated in response to the rise and fall of AID staffing funds. The graduates of the IDI program are a "Who's Who" of successful AID managers. Given the nationwide trend to reduce middle management positions, the historical pathway for advancement is being closed off to many employees. The IDI program is an effective vehicle for improving workplace diversity and is a reliable source of managerial talent. This program allows AID to enrich its workforce like no other system.

Inter-disciplinary Rotations. Mandatory inter-disciplinary rotation (e.g. program to administration, implementation to evaluation or headquarters to field) of junior officers is common in the foreign affairs and military communities. AID is a notable exception, partly because the majority of AID officers come in at mid-career level. Because of the new agency emphasis on outcome-based performance measurements and the recent Congressional legislative initiatives in the area of mandatory performance standards and

strategic planning, crosstraining in evaluation methodology, resource allocation, and management is an essential element in future career development. Rotations offering training in these areas should be mandatory for promotion purposes and seen as a normal part of career development.

Use of Tandem Couples. Overcoming historical problems with dual assignments will become more important in the deficit reduction environment of the 1990s. Federal law and regulation is quite stringent regarding nepotism. Assignments must be made carefully so that spouses are not operationally accountable to one another, or serve in positions where normal separation of duties is called for because of potential for financial conflict of interest. Experience has shown that smaller country programs often do not allow the required separation. Overhead savings can be substantial by hiring tandem couples. Liberalizing hiring of spouses at post is an important step forward in attracting professional couples and supporting the professional and personal interests of Foreign Service families.

Overseas Compensation. Overseas compensation, tied largely to the Foreign Service Act, has been criticized as too generous. Foreign Service staff are eligible for U.S. holidays, local holidays, annual leave, home leave, and compensation for rest and recuperation trips in selected posts (both Barbados and Bangkok, for example, are "R and R" posts). In addition, staff are eligible for up to 25 percent pay differential based on hardship and cost of living. In some countries, they receive commissary privileges or shipment of "consumables"--goods purchased in the United States and shipped at government expense to post for the employee's use.

Training. Deficiencies in training are mentioned in interviews and recent management studies of AID. The 1992 Office of Management and Budget SWAT-Team report on AID operations suggested that project management was where the greatest weaknesses in training exist.⁸ The Ferris Commission (cited above) noted the "ad hoc" nature of training at AID and the low commitment of resources.⁹ The agency has begun pilot training programs in project and contract management, with a view toward certifying project officers beginning in fiscal year 1995. The agency also has a vigorous language training program and should continue to emphasize language proficiency.

Evaluation. Although not unique in this regard among federal agencies, AID employees do not have routine, predictable jobs. Rather, many employees are problem solvers, confronting new and complex development problems and then, by applying a mix of information and financial resources, solving or at least ameliorating them. Risk taking is inherent in this type of work, and because of that fact, failures are to be anticipated. Conducting meaningful evaluations of AID employees means acknowledging the tension between process and product. Measuring only process, however, means that the evaluation focus is only on inputs, not on outcomes.

"In fiscal year 1991, the agency (AID) paid \$2.4 million in performance based incentive awards to about 1,700 employees. In that year, 43 percent of the Foreign Service staff received awards and 59 percent of the Civil Service employees received awards. In the same year, AID separated only five people for substandard performance."¹⁰ AID personnel staff recently said that 95 percent of AID Foreign Service employees received either outstanding or superior performance ratings in fiscal year 1992.

In 1992, the Ferris Commission criticized the use of both the Foreign Service and the Civil Service evaluation systems.¹¹ Under the Foreign Service Act of 1980, panels are used to recommend FS employees for promotions, pay increases, and bonuses. The Ferris Commission report indicated serious problems with the functioning of the personnel evaluation system, particularly in the Foreign Service, stating: "Because of AID's collegial culture, a system has evolved over time where each individual employee manages his/her assignments, training, career, and frequently even drafts input into annual performance ratings. GS employees tend to be ignored or little involved in career development and training. PSCs are considered like FSNs, something of interest to missions only."¹² The Foreign Service appraisal system is also criticized for not being linked to accomplishment of the goals of the agency. The change underway in AID should address this.

Performance Incentives. The AID Agency Incentives Project (conducted between July and December 1991) represents a positive effort by the agency to revitalize its employee incentives systems by acknowledging the high level of service motivation in most AID employees, shifting evaluation focus to project results, giving managers greater

autonomy over incentive resources, and supporting employees with a refined statement of agency mission. According to the project report, many employees are "frustrated by obstacles such as a lack of clear direction, cumbersome procedures, outmoded systems and facilities, and a poorly defined career path that fails to provide opportunities and rewards in a transparent, predictable and equitable manner."¹³ The report criticized the awards process because the awards systems are "overly centralized, the process is less than transparent, and rewards are not made in a timely manner and are not adequately tied to performance."¹⁴ The suggestion was made that, "to be effective, the process must be decentralized, timely, equitable, and based to an increased extent on peer and subordinate input."¹⁵ All of these initiatives are consistent with the basic principles of reinvention.

Recommendations

Based on a redefined mission, AID needs to determine the optimal personnel system which will allow achievement of its new objectives. The new system should ensure improvements of the current mixed systems in the following areas.

- 1. AID should operationally integrate its total human resource personnel systems, including Foreign Service Nationals, and personal service contractors, as well as Foreign Service and Civil Service staff.**

The AID Administrator should select the approach that is most consistent with the requirements of the agency.¹⁶

- 2. AID should reinvigorate the International Development Intern (IDI) Program.**

AID should support this source of managerial talent and workplace diversity.

3. AID should ensure that the lengths of overseas assignments are logically related to the nature of the work performed by AID personnel.

This will involve lengthening tours beyond the current 2 to 4-year period.

4. AID should ensure that junior officers develop management and administrative skills as part of their career development.

AID should adopt a policy similar to the military where promotion depends on serving tours in other services and central offices.¹⁷

5. AID should invest in more training in project implementation, contract administration, financial management and foreign language proficiency.

6. AID should encourage rotational assignments in and out of the Office of the Inspector General.

Auditors from the Office of the Inspector General (OIG) should be allowed to take excursion tours as project managers. Also, the agency should facilitate rotational assignments for program staff through the OIG.

7. AID should restructure the performance review and employee incentive programs to link individual performance to organizational performance.

8. The AID Administrator should enforce the terms of the “up or out” regulations and begin reducing the excess senior management at the agency.

The Administrator should curtail the routine granting of limited career extensions (LCE waivers to the “up or out” regulations).

9. AID should integrate spouses of tandem couples into the assignment process and cultivate them as part of the overseas workforce¹⁸.

Assignments should be made carefully so as not to violate federal law and regulation regarding nepotism.

10. AID should initiate an interagency review of Foreign Service benefit policies.

Implications

An operationally unified personnel system will increase the effectiveness and the flexibility of the organization. It will allow selection of technically trained staff available for field service based on immediate competence, thereby reducing the time and cost of recruitment and training. Headquarters and field staff can be rotated at will, increasing opportunities to target skills at appropriate country missions. A unified system will be more efficient to administer than the current system. Review of the overseas compensation package will show possible cost savings in areas like housing standards and differential pay. Enforcing the terms of the “up or out” regulations will make room for younger staff,

facilitate improvements in workplace diversity, and allow expansion of the International Development Intern (IDI) program. Increasing the tour length will enhance the effectiveness of the program staff at post by giving them a longer opportunity to learn about and focus on the specific problems of a country. A longer commitment to a particular country will improve continuity and create an incentive to more carefully consider overseas assignments. Encouraging a more "family friendly" overseas work environment will make more cost effective tandem couple assignments possible.

Fiscal Impact

Fiscal impact is difficult to estimate, but the following examples are illustrative. The estimated costs (including overhead) to place one AID staff person in the field range from \$150,000 to \$300,000 per year *exclusive* of salary. (The direct costs are estimated at from \$60,000 to \$105,000 per year.) AID personnel are paid up to 25 percent pay differential for overseas assignments in hardship posts. Training costs will be reduced by rotating formerly GS employees or previously language trained professionals out into the field. Increasing normal tour length will reduce the costs associated with relocating staff. Reducing the number of highly graded employees on limited career extensions will lower salary expenses. However, the actual fiscal savings associated with these changes depend on their timing and nature and cannot be estimated at this time.

Endnotes

1. The formal designation of AID positions as Foreign Service or Civil Service took place in 1979 in response to an amendment of Section 401 of the International Development and Food Assistance Act of 1978 which required the President to submit to Congress regulations establishing a "unified" personnel system. A task force was assembled and charged with the responsibility of determining the correct category for each position. The determinations were to be made based, primarily, on the requirement of specific knowledge or experience related to the overseas development process. On May 1,

1979, the President submitted regulations to Congress and those regulations become effective October 1, 1979. The regulations provide that an AID/W position may be designated as a GS position, rather than a Foreign Service position, only if (1) the position is primarily of a clerical, administrative or program support character and can be performed without significant overseas experience or understanding of the overseas development process; or (2) it requires such continuity and specialized knowledge as to make it impractical to assign the incumbent overseas.

2. From an unpublished AID working document dated April 16, 1992.

3. The President's Commission on the Management of AID Programs, *Action Plan--Working Draft #1* (Washington, D.C., March 2, 1992), p. 10. Note: This theme is elaborated in The President's Commission on the Management of AID Programs, *A Progress Report* (Washington, D.C., September 30, 1992).

4. Cable 143458--requesting field perspectives on AID's goals and priorities.

5. The process of identifying FS/GS positions was contested by the American Foreign Service Association (AFSA). The union pressed for greater representation in offices originally designated as having primarily GS employees. AFSA objected, for example, in an open letter to Congressman Obey dated December 10, 1979 about a 10 percent "loophole" which would allow the Administrator to assign civil service employees into Foreign Service slots. The letter said, "AFSA never liked the ten percent exception, which by definition allows not fully qualified personnel to be assigned to Foreign Service-designated positions and naturally reduces assignment opportunities for Foreign Service personnel."

6. The Peace Corps compensation structure for overseas professional staff is worthy of note. Peace Corps staff interact with ministry officials like their AID colleagues, and are represented on the country team. They receive no hardship pay differentials, do not live in diplomatic-style representational housing, and receive no rest and relaxation allowances.

7. Ferris Commission report, *Action Plan*, p. 11.

8. Office of Management and Budget SWAT-Team Report, *Improving Management at the Agency for International Development*, (Washington, D.C., 1992), p. 8.

9. Ferris Commission report, *Action Plan*, p. 11.

10. OMB/AID SWAT-Team, p. 6.

11. There are actually six different types of employee groups covered by the employee incentive program at AID: Senior Executive Service (SES); Senior Foreign Service (SFS); Civil Service Merit Pay (GM); Civil Service (GS); Foreign Service (FS); and Foreign Service National (FSN).

12. Ferris Commission report, *Action Plan*, p. 10.
13. AID Incentives Project, *Reforming the Incentives System*, (Washington, D.C., January 1992), p. 4.
14. Ibid., p. 16.
15. Ibid., p. 4.
16. Two potential approaches are: (1) Create a unified personnel system based on best practices from other agencies. Consider the Central Intelligence Agency personnel system as a useful model. (2) Break down barriers wherever possible between the two systems. AID management can make better use of non-career, time-limited FS appointments and excursion tours for Civil Service employees wanting to serve abroad. The agency can re-evaluate the current mix of designated GS and FS positions and identify positions in headquarters as open for both FS and GS employees unless there is a clear reason for them to be reserved for employees of one service. Grade banding (reducing the number of grades to three or four with greater ranges of salaries) for GS jobs would help bring compensation in line with FS compensation.
17. The Goldwater-Nicholls Act governs the rotation of military officers between services.
18. Two options are (1) AID should secure authority to waive FTEs (Full Time Equivalents) for accompanying spouses, and (2) in lieu of option one, AID should secure authority to count as service toward retirement time spent accompanying in leave without pay (LWOP) status by AID spouses who are also employees of AID.

PART 1: CUTTING RED TAPE TO GET RESULTS

AID 04: GIVE LINE MANAGERS AT THE AGENCY FOR INTERNATIONAL DEVELOPMENT DIRECT CONTROL OVER STAFFING LEVELS AND RESOURCES

Background

Because of reduced levels of full-time work years¹ (Full-Time Equivalents or FTEs) and funding levels in its operating expense accounts, the Agency for International Development (AID) has increasingly relied on the use of personal service contractors (PSCs) to manage its assistance activities. Restricting staffing resources has contributed to the deterioration of AID's ability to manage itself and its programs by shifting the duties of AID project officers away from "hands on" project management into process management (e.g., preparing proposals and managing contracts). The agency is being forced to shed, through attrition, much of its program implementation expertise, with a resultant lack of continuity in program administration. In a downward spiral, AID managers increasingly preoccupied with contract management lose touch with the reality of field work, further diminishing their effectiveness in overseeing the performance of contractors. Although the full-time workforce has declined, the increase in contractor workforce has more than made up for the full-time decrease.

AID has approximately 1,700 Foreign Service employees, approximately 1,100 overseas and 600 in Washington. All of AID's nearly 1,000 Foreign Service Nationals serve overseas. Nearly all of AID's over 1,500 Civil Service employees serve in Washington. Besides its full-time employees, AID will employ 7,000 to 8,000 personal service contractors (PSCs) in fiscal year 1993. About one percent of PSCs served in Washington in 1992, to support central programs and the rapid expansion of AID program activities into the former Soviet Union; the balance served abroad. Normally, authority to

employ PSCs is granted only for contractors working overseas. About 10 percent of the PSCs are United States citizens.

The President's Commission on the Management of AID Programs (the Ferris Commission report) noted AID's heavy reliance upon contractors to carry out increasing amounts of project design and service delivery. The commission concluded that "a major factor which makes human resource management most difficult in AID is that external parties determine the annual operating expense funds and career personnel ceilings AID must adhere to without reference to the program to be carried out."² This refers to the separate operating expense appropriation from Congress and the FTE ceilings imposed by the Office of Management and Budget (OMB). Conflicts clearly have existed between AID management's vision of the agency's overseas structure and the visions of Congress and OMB.

Declining levels of operating expense funds and FTEs have changed the role and makeup of AID's overseas work force. In a constrained resource environment, the decision to turn to personal service contractors is a logical one for program managers. PSCs provide a flexible alternative to full-time staff and are especially useful for quickly changing the workforce skill balance to react to evolving requirements. PSCs, doing much the same work that a direct-hire employee would do, can be charged to program funds, rather than more tightly controlled operating expense funds. Direct-hire employees cannot have their salaries charged to program accounts. Consequently, among program managers, there is a movement away from the implementation of development activities to the management and monitoring of contracts. "Although overseas U.S. direct-hire employees spent 32 percent of their work years on project management, their responsibilities increasingly involved managing and monitoring contractors, rather than the technical aspects of project implementation. Accordingly, missions and overseas offices place great reliance on foreign national direct-hires and personal services contractors to manage day-to-day project implementation."³

In fiscal year 1990, more than two-thirds of AID's overseas work years (totaling approximately 8,000) were expended by American and foreign national PSCs, who are not

separately identified and reported to the Congress. Foreign national PSCs made up 60 percent of the overseas work force in 1990, followed by 15 percent for American direct-hires, 12 percent for foreign national direct-hires, and 13 percent for American PSCs.⁴

The reductions in full-time staffing have not been evenly distributed. "The continuing reductions in direct-hire levels required by the Office of Management and Budget (OMB) have hit the field missions the hardest. During the period FY '85-FY '89, U.S. direct-hire staff decreased by 2.6 percent while direct-hire staff overseas decreased by 14.5 percent. This occurred in the face of IG/GAO criticisms that AID did not have sufficient project management in the field."⁵ AID determined those specific staffing reductions according to its own internal priorities.

The personnel system has not responded to the need for staff with training or experience in contract management.⁶ The General Accounting Office (GAO) indicated that AID has not adjusted its culture, training, and personnel practices to the increased use of contractors to deliver services, noting that large numbers of AID employees consider contract management to be a low priority, despite that fact that the bulk of project officers' responsibilities increasingly revolve around contract development and management. GAO also noted problems with supervision of overseas contractors and collection of data concerning the number and nature of personal service contracts.⁷

Giving line managers control over staffing resources is an important reinvention principle. Currently, AID budgets salaries for direct-hire staff out of a central agency pool and assigns FTE levels to each operational unit. Budgeting salaries out of a central fund does not create incentives for managers to factor payroll costs into their planning or to consider potential savings when hiring. Managing the total AID workforce--direct-hire as well as personal service contractors--through the budgets of line level managers is the only way to effectively control the size of the workforce.

Relaxing FTE restrictions may not be the only action required to realign the AID workforce. A critical related issue is that Congress appropriates funds separately for operating expenses, the account from which full-time employees are paid. Reductions in AID's operating expense budget have recently kept the agency from using its full allocation

of FTEs. Contractors can be paid out of program money because their work is generally tied directly to project implementation.

The proposal to grant line managers more direct control over staffing resources is written with the presumption that AID is already concentrating its overseas staffing resources by phasing out some programs and consolidating some services in regional offices. If these changes were not already underway, a further recommendation would involve using program money to fund full-time positions where legitimate direct program oversight responsibility exists.

The following recommendations should not be initiated until AID has produced a results-driven budget and policy analysis and has put in place the reporting and monitoring systems to ensure accomplishment of its mission.

Recommendations

1. AID senior management should vigorously explore opportunities to remove FTE restrictions and allocate operating expense salary resources to individual managers, rather than budgeting and managing funds centrally.

This should include (to the extent feasible given government wide classification constraints) the salary and benefits portions of the operating expenses. Both actions must be taken concurrently in order to fully implement the proposal. To the extent possible, pilot efforts should enable line managers to manage staffing tied to resources rather than to work years.

2. AID management should accurately monitor employee work years for *both* direct-hire employees and personal service contractors.

AID should thoroughly understand the real number of work years required to carry out its

programs and be prepared to report that information to OMB and Congress.

Implications

By providing line managers more control over their total budget resources, incentives for more efficient operation will be created. Because of the administration's commitment to reduce the federal workforce the combined totals of personal service contractors and full-time staff must be monitored carefully. Also, the multiple pay plans and retirement systems, as well as the high proportion of total operating expenses represented by salaries and benefits, require very close monitoring to avoid exceeding the amount budgeted.

Fiscal Impact

Fiscal impact is difficult to predict, but experience has shown that giving line managers control of personnel resources often yields opportunities to reprogram salary money into staff development or other administrative support areas. By considering both the direct-hire and PSC workforce reductions can be made in the total workforce size.

Endnotes

1. An FTE is generally calculated as 2,080 (although the work year for payroll purposes differs from year to year) hours or one person/year of service. FTEs are used to manage the number of federal employees throughout the government. The FTE system applies only to direct hire employees.

2. The President's Commission on the Management of AID Programs ("Ferris Commission report"), *Action Plan--Working Draft #1*, (Washington, D.C., March 2, 1992), p. 12.

3. General Accounting Office Report, *Foreign Assistance: A Profile of the Agency for International Development*, (Washington, D.C. April 1992), p. 5.

4. Ibid.

5. Ferris Commission report, *Action Plan--Working Draft #1*, p. 5.

6. See generally, General Accounting Office Report, *Foreign Assistance: AID Can Improve Its Management and Oversight of Country Contracts*, GAO/NSIAD-91-108, (May 29, 1991); General Accounting Office Report, *Foreign Assistance: AID Can Improve Its Management of Overseas Contracting*, NSIAD-91-31, (October, 1990); General Accounting Office Report, *Foreign Economic Assistance: Better Controls Needed On Property Accountability and Contract Close Outs*, GAO/NSIAD-90-67 (January 22, 1990); Office of Management and Budget SWAT-Team Report, *Improving Management at the Agency for International Development*, (Washington, D.C., 1992).

7. GAO Report, *Foreign Assistance: AID's Use of Personal Services Contracts Overseas*, NSIAD-91-237 (September 13, 1991).

PART 1: CUTTING RED TAPE TO GET RESULTS**AID05: IMPROVE THE CONTRACT AND PROCUREMENT SYSTEM****Background**

Over the last decade, the Agency for International Development's (AID) role has shifted from directly managing specific projects and program activities to managing *contracts*. This shift has led AID to become increasingly dependent on outside contractors to achieve Agency goals. Some would argue that AID is *too* dependent. While broader use of contractors creates the potential for serious management issues, AID has been forced to rely more heavily on contractors due to the complications of hiring employees for a broader range of narrow, technical specializations for relatively short periods of time, and the fact that AID's Operating Expense budget, where such hiring would have to occur, has been consistently reduced. This greater reliance on contractors has increased the importance of AID's contract and procurement system to facilitate quality programming as the Agency strives to accomplish its mandate. Numerous studies have identified a variety of systemic problems which adversely impact the efficiency and effectiveness of AID's contract and procurement system.

One problem area that the Agency has raised is with the historically slow rate in which contracts are obligated during the first three quarters of the fiscal year. AID indicates that this problem does not appear to be improving. In the first three quarters of fiscal year 1992, 1,743 contracts equaling a total of \$736 million were obligated. Comparably, 1,631 contracts equaling \$664 million were obligated in the fourth quarter in this fiscal year. This means that for fiscal year 1992, 47 percent of funds was obligated during the final quarter. For fiscal year 1993, 1,891 contracts totalling \$695 million were obligated during the first three quarters. Based on historical obligation levels, 50 percent of fiscal year 93 funds will be obligated during the final quarter.

The costs to the Agency for this heavy fourth-quarter workload are many faceted. Processing almost 2,000 contractual documents representing half a billion dollars in such a limited time span increases the Agency's vulnerabilities in several areas: AID managers are forced to make purchases that they really don't want; AID cannot enforce getting what it bought; AID undertakes projects which do not meet beneficiary needs largely because there is not adequate time for bona fide beneficiary participation; Creates fertile ground for waste, fraud and abuse.

This situation has also adversely impacted AID's contracting personnel. Since fiscal year 1992, there has been a 21 percent reduction of contracting staff. Half (50 percent) of AID's contracting staff are newly promoted and face their first fiscal year in their positions. The combination of a large contingency of inexperienced contract staff coupled with the pressure to obligate almost 50% of contract funds during the fourth quarter has led to high stress levels among AID employees which has resulted in greater use of sick leave, low morale, and reduced productivity. In addition, AID has had to pay over 1300 hours in

The U.S. General Accounting Office (GAO), the Ferris Report, and OMB Swat Teams have written extensively on the problems with AID's contract and procurement system. It seems repetitive to go into greater length about contracting problems that have been documented since the 1970's. However, to illustrate such problems, GAO identified inadequate procurement planning as a major factor in hampering the effectiveness of this system. GAO recommended that AID establish contract time frames with realistic scheduling guidelines; clearly define agencywide standards and requirements to ensure that the entire agency is following the same procedures and contract officers are provided with clear instructions; provide sufficient procurement-related training for project staff; and include contracting officers in the project procurement planning process to minimize legal and procedural difficulties. To respond to problems documented by GAO and other major studies, AID will be implementing the procurement planning system in 1993. Improvements to the contract and procurement system based on GAO, OMB and Ferris recommendations are designed to improve the overall system and to minimize fourth quarter workloads.

In addition to problems with AID's approach to contracting, AID contends that external influences also affect the Agency's approach to contracts and procurement. External influences are addressed (with recommendations) in AID Issue #2.

Recommendations

- 1. AID should undertake a review to identify barriers which impede its ability to obligate contracts more evenly throughout the year.**

The review should identify both internal and external barriers. AID should establish a plan to remove such barriers from the existing system.

- 2. AID should undertake a full review of AID policies concerning use of contractors, including identifying the pluses and minuses of extensive reliance on contractors.**

Such a review should address the trade-offs between accountability and the need for entrepreneurial/risk taking and whether it is not more beneficial to define accountability as assessment of project/program impact rather than contract micromanagement.

- 3. AID should continue to improve the procurement planning system.**

AID should continue to implement GAO recommendations regarding AID's contract and procurement systems. In addition, AID should review the entire contracting and procurement processes to ensure effectiveness. Those systems which are deemed as barriers to achieving results should be re-engineered for greater effectiveness.

4. AID should reevaluate its workforce needs as it relates to the contract and procurement system.

A human resource management strategic plan is needed to determine present and future workforce needs in the area of training, skill mix, job redesign, and applicant requirements.

Implications

These recommendations are intended to create a contract and procurement system which supports the Agency mission.

Fiscal Impact

The most primary fiscal impact should be effective and efficient use of funds. Specific fiscal impact cannot be estimated.

PART 2: CREATING INCENTIVES THROUGH MARKET MECHANISMS

AID06: REENGINEER KEY BUSINESS PROCESSES IN THE AGENCY FOR INTERNATIONAL DEVELOPMENT THROUGH USE OF AN INNOVATION FUND

Background

The Agency for International Development (AID) must significantly improve its information management capability to adjust to reduced funding levels and a field presence restructured in response to the end of the Cold War. Substantial reductions in the level of operating expense funds between fiscal years 1993 and 1994 make it extremely difficult for AID to reengineer its processes. Without capital funding for information systems development, AID will have great difficulty meeting its federal reporting requirements and empowering managers with useful project information. AID must invest in order to accomplish its mission.

AID has long been criticized for deficiencies in its information management. The agency's systems are considered antiquated and unintegrated, and consequently do not support management decision making. The accounting system cannot comply with some federal accounting standards. Layers of redundancy exist in the current system structures. Management improvements proposed by various studies conducted over the last several years regularly involve the application of new information technology as integral parts of the corrective actions.

Deficiencies in both accounting and information processing have combined to exacerbate AID's resource management problems. Financial management systems and operations in the agency have been reported by AID as high risk material weaknesses under the Federal Managers' Financial Integrity Act since 1988.¹ The General Accounting Office

(GAO) has criticized AID for its lack of effective funds control. GAO noted the proliferation of unintegrated systems, identifying more than 100. One core criticism has been that the financial accounting and control system and the mission accounting and control systems are not in conformance with government wide accounting standards.² GAO recommended that AID develop a comprehensive business plan, centralize information resources management (IRM) leadership, incorporate IRM planning into agency strategic planning and resource allocation processes, develop system standards, educate agency decision makers on information initiatives, and complete initiatives to identify information management requirements.³

The Office of Management and Budget/Agency for International Development (OMB/AID) SWAT Team, which was comprised of analysts from both agencies, reported that "AID cannot assemble an 'official' portrait of AID's large, diverse field activity portfolio because the agency's information systems lack essential data, are not coordinated, and do not collect information in a consistent manner." The report continued: "AID uses many automated and manual systems to monitor field activity. AID's systems are not integrated, operate on older proprietary computer technologies, and are often duplicate and overlapping. This leads to inconsistent, inaccurate and incomplete reporting that managers frequently do not trust."⁴ During the National Performance Review interview process, criticism was frequently expressed regarding the decentralized management structure that had developed at AID and an apparent failure by senior management to exert centralized policy control. Recent responses to a worldwide AID cable indicated a strong field concern about the number and obvious duplication of headquarters reporting requirements.⁵

Consolidating Data. Information technology and corporate data sharing (centralized data shared by the entire agency) would serve to consolidate reporting and make higher quality and more comprehensive information available faster to headquarters staff. Until AID has the telecommunications capability to provide connectivity with all of the field missions, the agency automation systems will be operating in a "mixed mode," with some information coming in electronically and some by incompatible diskette requiring re-entry in Washington--a process that substantially increases the likelihood for data error.⁶

AID Information Systems Plan. AID has responded to the criticisms. The agency has completed a comprehensive information systems plan (ISP) geared toward integrating the basic financial, procurement, personnel, and program management functions of the agency by sharing of corporate data. A comprehensive business process reengineering initiative is under way as part of the ISP process. This ISP has been favorably reviewed by General Services Agency (GSA). The GSA team briefed AID officials, OMB financial and technical analysts, and National Performance Review staff on June 11, 1993, regarding the outcome of their review. The ISP was seen as technically sound but ambitious, given the lack of resources available to carry it out.

AID has actively pursued implementation of the Army Corps of Engineers Financial Management System (CEFMS) to replace AID's current accounting system. CEFMS was selected by AID over "off-the-shelf" software because AID personnel believed it was: (1) from an agency that has a mission similar to AID and hence about 70 percent compatible without modification; and (2) available without licensing fees. AID will have to modify either type of software to suit its specialized requirements. AID contends that commercial software will require much higher levels of costly modification for full implementation. The system is currently undergoing extensive testing at AID. The new system is predicated on establishing centralized corporate data sharing and relation of resources to program measures. AID has provided briefings on its findings to the departments of State, Agriculture and Commerce, and the United States Information Agency.

Financial Constraints. Upgrading information management (along with other capital-intensive innovations) at AID has been seriously impeded by rapid expansion of the agency into the countries of the former Soviet Union without program reductions elsewhere, and has also been affected by the on-going reduction of the operational expenses account. These two situations have strained AID's ability to put in place its automation infrastructure. AID has requested funding for automation initiatives every year for three years and has received partial funding. AID has limited authority, with OMB approval, to reprogram some project money into the operational expenses account. Such a transfer has been granted and could be expanded with cost analysis by AID.

Funding Structures. Innovation funds are important to permit organizations to invest in capital intensive information management hardware, training or other infrastructure required to fundamentally reengineer work processes. As in the private sector, fundamental reengineering of business processes depends on both the application of the right amount of capital investment at the right time and a measurable return on investment. A good example for AID would be the development of a paperless travel management system, but opportunities exist throughout the agency. Innovations like this are becoming common in state and local government.

One or more of the following approaches could provide as source of innovation funds for AID, if legislative and funding issues can be resolved:

1. Cost savings could be retained in an innovation fund account and allocated for projects.⁷ This has the advantage of creating an incentive for managers to "save" resources for innovation purchases, but the disadvantage of legal restrictions and the long wait for enough cash to accumulate that the innovation would have a substantial impact. AID will have difficulty meeting fiscal year 1994 needs given the ten percent operating expenses reduction from fiscal year 1993 that the agency is absorbing.
2. An innovation fund could be established within normal budget authority by making across-the-board cuts and replenishing them with savings realized by the new process.⁸ This model has the advantages of speed and simplicity, plus the incentive of reinvesting savings. In AID's case this approach may be difficult because across-the-board cuts have already been taken, and the scale of funding needed to accomplish reengineering would require more capital than might be available.
3. Funds could be borrowed from the program account(s) and paid back with "interest." This approach has the advantage of simplicity and provides an incentive to create savings. It also offers the additional benefit of reversing the normal flow of funds from the program accounts into the administrative accounts. This action, however, would require a presidential determination and congressional consultations.

Absent legislation, such funds would remain available only for a single year.

Savings may take the form of increased efficiencies.

4. Funds could be requested in a separate appropriation or an emergency supplemental to provide seed money for a capital fund. The appropriation should preferably be for "no-year" money. The fund would be replenished with "interest" through payments from the end users of the innovation. If funded from the foreign operations (150) account, the Budget Act would require offsetting reductions in other AID accounts. This suggests the need for a government wide innovation account which is not scored only against the 150 account.

Money advanced to pay for an innovation should be considered as a capital investment loan that must be repaid. A request should be accompanied by a comprehensive rate of return analysis that demonstrates whether investment in capital information technology will reduce future operating costs and yield a positive return. The "lenders," in this case Congress and the OMB, need to have assurance that the resources will not simply fall into the general operating account and dissipate. Funds made available for capital projects must not be diluted into general operating expenses. Objectives must be clear and progress measurable. A clear repayment structure must be agreed upon at the beginning, and concrete conditions must be laid out. Ideally, the repayment should originate with the end users themselves based on actual use of the innovation.

Repayment mechanisms depend on the source of the capital and would be negotiated by the recipient and the "lenders." The innovation should be paid for over its useful life. As with any investment these funds must be accounted for over time, preferably with interest. In order to maintain integrity in the system it is important that the innovation "loan" and repayments be kept as transparent as possible. This can be achieved most easily by creating a separate appropriation for the innovation account.

Recommendations

1. AID should establish a revolving fund with cooperation of OMB and Congress.

Sufficient funding authority must be established to achieve a "critical mass" in terms of the automation infrastructure to be built. Authority to replenish the fund from savings in operating expenses and program accounts achieved by eliminating obsolete systems and other management improvements must be secured.

2. AID should target sound projects from the Information Systems Plan.

This would demonstrate the utility of the new technology, build faith in outside observers regarding the agency's ability to correct internal problems, and improve the management of the agency. The agency's focus should be on: (1) corporate data sharing through improved connectivity; (2) the financial management system; and (3) the automated program management system. These are the areas that have either been subjected to the majority of the criticisms or have the greatest likelihood of success.

3. AID should conduct a thorough cost-benefit analysis on any proposed capital expenditure.

Congress and OMB must be satisfied that a proposed capital expenditure will produce a positive benefit justifying its cost. Accomplishing a fundamental change in the way that an agency does business, using unproven technology with "borrowed" funds, is a proposition which requires a high level of confidence from the participants.

4. AID should obtain customer input during business process reengineering.

AID has a good but tenuous start on business process reengineering. Key to the success of this endeavor is the need to bring those who will be using the systems into the design process. In the case of AID these customers are all over the globe. This critical process cannot be cut short, and will require a commitment of resources from the innovation fund to assure adequate participation of all customers, particularly overseas missions. Focus should be on the three areas outlined in recommendation

5. Expedite implementation of the Army Corps of Engineers Financial Management System (CEFMS).

This system has been made available to AID as an alternative to more costly private sector "off-the-shelf" systems. Tests indicate that it will meet AID requirements and federal accounting standards. Formal implementation depends on OMB issuing waivers under OMB circular A-127 concerning the presumption that purchases should be weighted toward "off-the-shelf" systems.

Implications

The recently completed information systems plan is a large step forward for AID, but more than a good plan will be required to gain the confidence of the agency's critics. The recommendations will result in quicker and more comprehensive implementation of AID's information systems. The financial decision making on these substantial capital expenditures will be made more transparent, and the return on these investments will be better understood and documented. With competent business process engineering, work will be performed more efficiently and be better understood by both management and those at the implementation level.

Fiscal Impact

A thorough reengineering of management systems has the potential for creating substantial operational savings; however, these savings cannot be estimated at this time.

Endnotes

1. Agency for International Development, *Federal Managers' Financial Integrity Act Report*, (Washington, D.C., December 22, 1992), p. 6.

2. See General Accounting Office: *Foreign Economic Assistance: Better Control Needed Over Property Accountability and Contract Close Outs*, GAO/NSIAD 90-67, (January 22, 1990); GAO Report, *Foreign Aid: Problems and Issues Affecting Economic Assistance*, GAO/NSIAD 89-61BR, (December 30, 1988); GAO Report, *Foreign Assistance: Funds Obligated Remain Unspent for Years*, GAO/NSIAD 91-123, (April 9, 1991); GAO Report, *AID Management--Strategic Management Can Help AID Face Current and Future Challenges*, GAO/NSIAD 92-100, (March, 1992); GAO Report, *Foreign Assistance--A Profile of the Agency for International Development*, GAO/NSIAD 92-148, (April 1992). See also, U.S. Congress, Task Force on Foreign Assistance to the House Committee on Foreign Affairs, "Background Materials on Foreign Assistance," February 1989; and President's Commission on the Management of AID Programs (Ferris Commission), *Report to the President: an Action Plan*, (Washington, D.C., April 16, 1992).

3. General Accounting Office, *Information Resources Management: Initial Steps Taken But More Improvements Needed in AID's IRM Program*, IMTEC-92-64, (September 29, 1992).

4. Office of Management and Budget SWAT-Team Report, *Improving Management at the Agency for International Development*, (Washington, D.C., 1992), p. 12.

5. Cable 143458 requesting field perspectives on AID's goals and priorities.

6. Agency for International Development, *Action Plan for Implementing the Recommendations of the Joint AID/OMB SWAT Team*, (August 31, 1992), p. 11.

7. A useful example is the Treasury Department's Working Capital Fund, which is used primarily for information resource purchases. The Treasury operating manual is called "Management Plan for Information Systems TD P 84-02".

8. The U.S. Department of Commerce operates the "Commerce Pioneer Fund" which makes cash grants of up to \$50,000 to finance innovations and productivity improvement projects. The funding source is an annual appropriation set aside.

PART 3: EMPOWERING EMPLOYEES BY CREATING A QUALITY MANAGEMENT CULTURE

AID07: REENGINEER THE AID PROJECT/PROGRAM MANAGEMENT SYSTEM

Background

The President's fiscal 1994 international affairs budget totals approximately \$21.6 billion of which about \$6.6 billion is requested for the Agency for International Development (AID).¹ Much of AID's budget is spent on programs and projects that promote sustainable development. AID projects range in complexity from a single training workshop, to the development of a financial management system in a foreign country's government, to providing childhood immunizations. AID funds approximately 2,000 projects in more than 100 countries. Through the years, AID has shifted from the funding of discrete projects to an emphasis on comprehensive programs and increased use of non-project assistance to promote broad-based economic and policy reforms in developing countries. Although this portion of the report will focus on what AID traditionally has called the *project* management system, it also has wide application to AID's programs and non-project activities.

Since a major portion of the U.S. foreign assistance package is specifically targeted to the goal of alleviating poverty in developing countries, the participation of the poor in these countries in AID projects is critical for project success. A successful project is defined as a sustainable one that not only achieves project objectives, but also is continued by the intended beneficiary after AID funding terminates. Therefore, project sustainability is largely contingent on beneficiary support.

Congress also recognized the important role that project beneficiaries play in the development process. In 1966, Congress mandated through Title IX to the Foreign Assistance Act that priority "be placed on assuring maximum participation in the task of

economic development by the people of the developing countries. . . . The Foreign Assistance Act of 1973 advocated for "self-help efforts . . . and the involvement of the people in the development process through democratic participation. . . ." ² In 1975, subsequent legislation provided "greatest emphasis . . . be placed on countries and activities that effectively involve the poor in development." ³

Although AID understands the linkage between customer involvement and project sustainability, the current project management system can prevent AID from fulfilling its Congressional mandate in this area. As a result, many AID projects are developed which do not adequately serve AID's customers, may lack the necessary customer commitment, and therefore may not continue once AID funding terminates. Based on an extensive review of the literature and interviews with AID staff and other development specialists, several problems in the way that AID's project management process is structured have been identified as creating serious constraints on the ability of AID to respond to the needs of the poor in developing countries.

AID's field offices or missions have responsibility for project management. AID headquarters in Washington, D.C. also plays an active role. A mission is based in the foreign country that receives AID assistance. AID refers to these foreign countries as "host" countries. Generally, an AID mission funds a development project to respond to a specific problem within the host country, although funds are often earmarked by Congress for a particular country, sector, or activity.

Recent reports have highlighted numerous problems with AID's structures and procedures that hinder the ability of AID to achieve results. The project management cycle involves roughly seven phases: problem identification, project design and negotiation, obligation of funds, implementation, evaluation, project redesign, and closure. Each phase requires an array of internal reviews, streams of paperwork and complicated procedures, resulting in a rigidly crafted blueprint design of the development project.

The detailed blueprint plans of the project and the requirements of the system do not allow for the necessary flexibility and may inhibit the beneficiary input required for project sustainability. A 1988 AID evaluation of 62 Agency health projects indicated that more

than half either failed before the project ended or were unlikely to be continued after U.S. funds ceased.⁴ This high failure rate has been attributed to AID's top-down, blueprint project design and management approach that impedes the ability of project field staff to make the necessary mid-course corrections during project implementation. It also has fostered an environment that discourages risk-taking and the use of creative problem solving strategies that may deviate from the project design. Although changes may be warranted to respond to the uncertainties inherent in all phases of the project cycle, the standardized, rigid structure of the project cycle as specified in AID's operational project handbooks does not allow sufficient flexibility. AID has streamlined some of its project requirements to allow for greater flexibility in certain regions of the world and plans to adapt these simplified procedures agencywide in early fiscal 1994.

The number of distinct steps necessary for project approval involving field, headquarters, and Congress result in a burdensome, duplicative, and time-consuming system. Frequently, a project can take up to 3 years before it begins. By the time a project gets off the ground, the assumptions built into the project design and the initial project participants may have changed. Continuity is lost. The implementation team attempts to carry out a project that was sometimes planned by another team 3 years earlier.

The incentives at AID tend to reward work in one part of the project management cycle (design and obligation of funds) at the expense of others (start-up, implementation, evaluation, results). People are rewarded for designing new projects, not necessarily for implementing them. The General Accounting Office (GAO) recently suggested in a draft report that the push to obligate earmarked funds drives AID to fund million-dollar projects prematurely to which the host country is indifferent as in the case of judicial reform initiatives in Central America. In the area of implementation, more focus has been placed on audit trails, processes, and resource accounting than on how or if the project is achieving results. Evaluations focus greater attention on inputs (number of classes held) than outputs (project impact).⁵

The mission director in each host country has ultimate responsibility and accountability for a specific AID project in his or her jurisdiction. However, ensuring that

the project works on a day-to-day basis involves many people working on separate pieces. The AID project officer often is assigned to a project that was designed, budgeted, and authorized by others and is rarely present throughout the entire life cycle. One reason for this is that AID projects are generally long-term, while Foreign Service officers have shorter rotation assignments. It should be noted that this is being addressed to some degree under a separate AID recommendation which allows for longer stays in host countries. Project development also involves the whole range of mission staff, from legal advisors to contracting officers to ensure compliance with AID's rules and regulations. The current structure fragments accountability. It appears that everyone is involved, yet nobody is really in charge to ensure overall project results.⁶

AID's direct hire workforce decreased from 8,600 in 1967 to about 3,400 in 1990. Currently, AID has about 4,000 direct hire employees. During this time, AID shifted its direct hire staff from directly implementing projects to managing contracts and grants. AID has about 1,100 U.S. direct hire staff overseas to manage more than 2,000 activities in over 100 countries. As a result, AID relies heavily on outside contractors for many phases of the project cycle, some of which may be completed by a different contractor. Contractors are evidently relied upon to provide skills not available within AID and to compensate for reduced staffing levels at AID. For example, only five AID staff members had experience in managing judicial reform projects in Latin America as of February 1993.⁷ Many AID staff do not have adequate training required in AID's new program directions such as privatization, environment, and democracy.

As a result, AID sometimes pays U.S. contractors at U.S. rates what indigenous organizations might be able to do at the local rate for a fraction of the cost. Indigenous organizations are those that have been formed by the local population within the host country. Although U.S. contractors are needed in countries where technical expertise is lacking, there is a definite advantage in using the growing reservoir of host country professionals and indigenous organizations to assist with development projects. AID's existing policies, which create incentives that encourage U.S. contractors to form partnerships with indigenous organizations is one of the steps that AID has taken to assist

indigenous organizations, to strengthen their institutional capabilities.

However, many procedures and incentives preclude the full involvement of intended beneficiaries such as indigenous organizations in developing countries. Even though many AID staff expressed interest in working directly with indigenous organizations, they cited a number of requirements in AID's operational project handbooks that are confusing and onerous and act as barriers to beneficiary participation. Some of the requirements include audit, financial statements, personnel systems, and an existing track record. Many indigenous organizations may not have access to such basics as typewriters and accountants that are standard for U.S. organizations but are luxuries in developing countries.

Experience has shown that projects which support and not supplant community efforts within developing countries are more likely to achieve results. Many innovative and successful models have been structured to build upon the efforts of people within developing countries. The following four projects have been included in this report to illustrate how their processes, incentives, and structures have been designed to foster an environment that focuses the organization on results and the customer. AID continues to rethink traditional approaches and processes to further their reinvention endeavors and has incorporated some of these innovations into existing projects. It should be noted that the following four projects represent only a few of the many innovations occurring within the development field:

- *The Grameen Bank.* The Grameen Bank serves as an overall development model where credit has been used as an entry point for the poor and now serves as a catalyst for change. It is not AID funded, although AID has sponsored micro-credit programs. Basically, the Grameen Bank provides small loans to poor people who own less than 0.5 acres of cultivable land or assets not exceeding the value of 1.0 acres of land. Loan repayment has been excellent. Grameen has helped its borrowers accumulate capital and generate employment opportunities.

The Grameen Bank was developed under careful experimentation through trial and error to determine what worked and what didn't. It continues to evolve using this method. Grameen recognized early that there was no prescription formula

for development. Had the Grameen been designed under a rigid, blueprint approach, it no doubt would have failed in the project design phase. It needed the experimentation of a social learning process in the implementation phase for innovation, risk-taking, and flexibility to adjust to local conditions. It continues to learn from its mistakes and to respond to feedback drawn from all levels of the organization. People are encouraged to bring up problems and are rewarded for developing creative solutions for solving them. It has been very effective at balancing the administrative demands of the organization with the participatory demands of the local community.

Grameen's success is also attributed to its incentive structure. Borrowers organize themselves into small groups. The members support each other and apply pressure when needed to repay loans. This pressure substitutes for collateral. Incentives are organized in a way that creates an interdependency between bank workers and bank beneficiaries. Within the group, mutual accountability ensures repayment and project sustainability.

Grameen has received worldwide attention for being a development project that is working successfully. It has been successfully replicated in other countries when it has been adapted to fit into their unique cultural and economic conditions. It is important to note that there is no Grameen *blueprint*. The Grameen Bank works in Bangladesh only after many years of experimentation.

- *Canada's International Development Research Centre (IDRC)*. The IDRC's mission revolves around the belief that the problems of developing countries cannot be solved by importing outside solutions. The IDRC promotes development by providing funds to developing-country researchers who are working within their own country on solutions to their nation's problems. It also helps in the dissemination of research results so that those results can be widely applied. This approach offers research opportunities that build up scientific capacity and thereby reduces the scientific "brain drain" in developing countries. It relies on a board of directors who are all from developing countries. The Canadian government has given the

IDRC complete latitude to accomplish its mission by keeping it free from micro-management restrictions and structuring it in a way that insulates it from Canadian politics. This project offers a variety of lessons for development organizations on how people within developing countries can be supported to solve their problems.

- *The Philippine National Irrigation Administration (NIA)*. Local participatory approaches to development are often viewed as not particularly relevant to organizations such as AID, who mainly work with host country governments at the ministry level and rarely with rural villagers. However, the Philippine National Irrigation Administration (NIA) is an example of a large government agency in the developing world that implemented programs in ways that empowered local communities to take an active role in development activities. In fact, AID has established an international irrigation institute based on this model. It also provided funds in 1987 to NIA to support participatory approaches to irrigation systems.⁸

The NIA sponsored small-scale communal irrigation systems throughout the Philippines that involved local farmers from project initiation through implementation and evaluation phases. The NIA's program is one innovative approach to development that transformed itself from, the conventional non-participatory approach where agency personnel viewed themselves as the "implementors" while the local farmers were considered passive "beneficiaries," to a highly participatory one where farmers eventually took over the operations of the project and continued to sustain it through local fees. Restructured incentives such as partial recovery of collection fees and investment costs, amortization payments, clear points of responsibility for the results, and new performance measures based on financial viability where income exceeds expenses, encouraged greater participation, helped to curtail unnecessary spending while promoting a sense of collective responsibility and ownership of the irrigation facilities.⁹

Since much of the AID funding is channeled through government agencies, this project offers a variety of relevant lessons regarding macro-policies, field methods, organizational change processes, interagency cooperation and management

structures needed to transform an agency's role in developing countries from rowing to steering. Although AID has incorporated many of these approaches in Asia where they do irrigation and natural resource management, these methods could be expanded to other sectors and countries.

- *InterAmerican Foundation (IAF).* The IAF exists to support the efforts of indigenous organizations in Latin America which are working on behalf of the poor. Unlike AID, the IAF has no field presence. It accomplishes its mission through grants which are awarded directly to indigenous organizations located in Latin America. The IAF provides grants for projects which are initiated, designed, and implemented by indigenous people within host countries, and not by IAF staff. In-country support teams made up of indigenous people are responsible for monitoring and evaluating project performance. Although the IAF has recently been criticized for becoming too bogged down with regulations perceived as hampering innovation, its strength has traditionally been attributed to its unbureaucratic internal structure, and decentralized decisionmaking processes which has helped the organization foster risk-taking and beneficiary participation, and the freedom to experiment and learn from mistakes.

The importance of timely, accurate, and relevant information in all phases of the project process moving vertically and horizontally throughout the entire organization cannot be underestimated. One way that AID obtains feedback on its projects is through the evaluation process. However, it appears that evaluation findings are not always acted upon or taken into account in the planning and budget allocation processes. Sometimes, even after evaluations conclude that projects are deriving no benefits and the host country has not demonstrated a commitment to the project, funding continues.¹⁰

There are a number of external barriers that prevent AID from withdrawing funds from unsuccessful projects. These include:

- congressional earmarking of funds and report language;
- contract commitments and fears of litigation;
- the political difficulty in reallocating committed funds;

- rigid and complicated planning systems; and
- considerations of the views and commitments of contractors and grantees such as U.S. non-governmental organizations (NGOs) and U.S. private voluntary organizations (PVOs).

AID's 1992 In-Country Presence Report concludes that because the programs are broad and staff is increasingly stretched thin, AID missions can work in isolation from other donors and are as a result, sometimes unaware of their activities even within the same sector or country.¹¹ This could result in a very skewed approach to development with some regions inundated with too much funding, while others are totally ignored.

Recommendations

- 1. AID should reengineer the program/project management process to emphasize innovation, flexibility, and beneficiary participation.**

Efforts should continue to:

- organize around project outcomes;
- identify and remove steps, procedures, and requirements, both internally and externally imposed, which do not add value to the process and create impediments to accomplishing project results;
- redesign jobs, functions, structures, and other processes that support project results;
- put the decision point where the work is performed and build control into the process;
- improve continuity and accountability for projects by timing rotation assignments so they encompass to the extent possible the project life from design through closure; and

- to identify and remove barriers that impede the full participation of indigenous populations and to create incentives for their inclusion.

2. The AID Administrator should designate selected AID missions as pilots to experiment with innovative approaches to programming and delivery of AID assistance.

These missions should be given waivers on rules and regulations that are deemed impediments to achieving projects results. The four models presented in this report provide a number of innovative approaches that could be adapted for AID projects.

3. AID should structure the reward and incentive system in program/project management to ensure that performance and accountability are linked to accomplishing project results and that innovation is encouraged.

Project success should be the primary factor in rewards and evaluation. Incentives should be designed to create project success based on interdependency between key players. AID staff and project beneficiaries should be rewarded on project success based on mutual cooperation, performance, and results. For example, performance appraisal systems should include beneficiary satisfaction and quality of beneficiary participation as performance indicators to measure AID's performance at the field level. Likewise, host countries should be required to demonstrate sufficient commitment toward a project before it begins. Future project funding should take into account host country performance on existing projects. Where appropriate, future contract and grant awards should take into account a contractor's past performance and its ability to establish collaborative linkages to indigenous organizations.

4. AID should establish systems for continuing critical review of all existing projects to ensure that they are achieving desired outcomes.

As part of this review, each mission should address the following:

- How does the project relate to new priorities as described by the Administrator?
- Are local conditions in place to ensure project success?
- Are results on track?
- If not, can the project be salvaged in an appropriate period of time (6-12 months)?

Reviews should determine whether projects need to be terminated or provided additional funding. AID should designate a team which identifies and removes existing internal and external barriers that have prevented AID from terminating unsuccessful projects.

Mechanisms are needed to ensure that resources continue to flow to those activities achieving results.

5. AID should strengthen the project/program evaluation process and integrate it into the planning, budget and project allocation process.

AID should develop mechanisms that incorporate evaluation findings into all stages of the decisionmaking process. Evaluations should be used to help guide managers with planning, budget, and project allocation decisions. Evaluations should focus on results. Evaluations which demonstrate that projects are not deriving any benefits should result in discontinuation of funds. Impact evaluations should be more than lessons learned. They need to be taken seriously and their recommendations should be acted upon. It needs to be recognized that this may require strengthened analytical capabilities at AID. Increased focus on results in other assessment and accountability mechanisms, such as audits, inspections, and other reviews, would assist managers in planning, budgeting, and project

allocations.

6. AID should improve donor coordination, both at headquarters and in the field.

AID mission directors should designate an officer responsible for coordinating the efforts of the AID mission and other donors. Where appropriate, all AID mission staff should be encouraged to coordinate policies and leverage resources through extensive consultations, joint ventures, and partnerships with other donors.

Implications

These recommendations are designed to support the reinvention efforts outlined by the AID Administrator. Overall, they are intended to create a more flexible and streamlined agency. AID's present internal structures, external barriers, and burdensome procedures that have accumulated over the years make it more difficult to achieve program results. Reengineering the project management system under a Grameen social learning model of development could provide a more effective process which supports creativity and flexibility, while focusing on the customer to achieve project results. Incentives that tie performance to results will increase productivity and ensure accountability to beneficiaries.

The system and processes will be adapted to bring in the customer at each stage of the development process. By focusing on the customers, (in this case the project beneficiaries), projects will be designed to adapt to local conditions. Bringing indigenous groups more directly into the project cycle will ensure that projects better reflect their needs. As a result, greater ownership will be achieved to ensure sustainability and accountability. AID will leverage resources in collaboration with other donors and NGOs to support host country activities.

Projects that are deemed unsuccessful in the evaluation process should be phased out. Resource reallocation will flow to projects that are tied to new priorities and are actually achieving results. Although these recommendations target the project cycle, they can also be applied to AID's programs and non-project activities that may encounter the same types of problems experienced in the project cycle.

Fiscal Impact

It is difficult to quantify the dollar amount of savings associated with reengineering the project/program management system. A reduction of overhead administrative costs, a greater reliance on indigenous populations, a stringent review, and termination of unsuccessful projects could result in substantial savings. The process of reengineering, however, is long and arduous, and functions such as strategic planning and evaluation may result in up-front costs. However, this is not expected to create new spending demands. On the contrary, the removal of existing internal and external barriers should reduce costly administrative overhead. This should offset any added costs incurred as the agency reengineers.

Endnotes

1. U.S. Department Of State, *Dispatch Bureau of Public Affairs Supplement, FY 1994 Internal Affairs Budget Request, (April 1993)*, Volume 4, Supplemental No. 1, p. 2; and U.S. Agency for International Development, *Congressional Presentation Fiscal Year 1994*, April 1994, pp. 21-23.
2. Steve Hellinger, et al., *Aid For Just Development: Report on the Future of Foreign Assistance* (Boulder: Lynne Rienner Publishers, Inc., 1988) p. 22.
3. Ibid.
4. Dennis Rondinelli, "Reforming U.S. Foreign AID policy: Constraints on Development Assistance," *Policy Studies Journal*, Vol. 18, no. 1 (Fall, 1989), pp. 74.

5. U.S. Comptroller General, *Draft Report, Foreign Assistance: Promoting Judicial Reform to Strengthen Democracies*, Report to Congress, NSIAD-93-149 (General Accounting Office, 1993), p. 5.

6. See *Reengineering the Corporation: A Manifesto for Business Revolution*, by Michael Hammer (New York: HarperCollins Publishers, Inc., 1993) for a more indepth discussion on these types of problems.

7. Ibid.

8. Frances F. Korten and Robert Y. Siy, Jr., *Transforming a Bureaucracy* (West Hartford: Kumarian Press, Inc., 1988) p. 156.

9. See *Transforming a Bureaucracy: The Experience of the Philippine National Irrigation Administration*, Frances F. Korten and Robert Y. Siy, Jr. (West Hartford: Kumarian Press 1988) for further analysis on this case study.

10. Ibid., pp. 5-8.

11. U.S. Agency for International Development, *A.I.D.'s In-Country Presence An Assessment* (October 1992), p. 32.

PART 4: CREATING A BETTER GOVERNMENT THAT COSTS LESS

AID08: THE AGENCY FOR INTERNATIONAL DEVELOPMENT SHOULD PREPARE FOR ASSISTANCE DISENGAGEMENT, PHASING OUT MISSIONS AND CONSOLIDATING FUNCTIONS

Background

Since fall 1989, U.S. foreign assistance objectives have changed from *resisting* the Soviet Union's influence in the developing world to *assisting* the constituent parts of the former Soviet Union. This shift necessitates a fundamental and comprehensive realignment of world wide aid resources. The speed and sweep of the changes have caught the Agency for International Development (AID) with an organizational and workforce structure appropriate for the old paradigm but in many ways inappropriate for the new. In addition, the current need to address the federal budget deficit has made consolidation of field operations and downsizing of missions inevitable. In recent interviews and Congressional testimony, AID Administrator J. Brian Atwood has stated that the number of countries where AID has programs should be reduced in number from 105 to perhaps as few as 50 to concentrate AID's field presence where it is most needed. Polling data seems to indicate that the electorate supports his point of view.¹ Whatever the final numbers, the greatest challenge to the new administration will be to preserve what has been argued by AID to be its greatest strength--its field mission presence--while redesigning the agency to respond to new global and resource realities.

In 1992, the President's Commission on the Management of AID Programs (Ferris Commission) noted; "In conceptual and management terms, the Commission finds that AID is spread too thin. In many countries, AID funding is too small to effect a significant economic and social change or to justify the staff on the ground and in Washington."² The report concluded that AID must reduce the number of and simplify its country programs,

explaining that "in countries where large amounts of resources cannot be justified, missions and field offices should be eliminated or downgraded to AID Representative status."³ Citing the agency's "focus and concentrate" program, the report concluded that country programs should be reduced in number, scope, and complexity to bring them into line with the diminishing resources available in the agency's operating expense account. The report cautioned, however, that no standards had been established to uniformly review and prioritize the programs.⁴

In testimony before the Task Force on Foreign Assistance to the Committee on Foreign Affairs of the House of Representatives (source of the Hamilton-Gilman Report), former AID Administrator Peter McPherson stated that by reducing paperwork and regulations the AID/Washington staff could be cut eight or nine percent. He also stated that AID's field missions are the agency's most important asset and concluded with his opinion that the missions were sometimes more important and valuable than the ambassador's influence in a country.⁵

A recent Congressional Budget Office (CBO) proposal recommended a sharp reduction in the number and scope of AID's programs. Noting that since the founding of AID in 1961 the Congress has added 30 to 39 new objectives to the mission of the agency, the CBO concluded that AID has too many objectives and is spread out in too many countries to be effective. The CBO also noted that AID's mission has strayed from its focus on alleviating poverty and promoting economic growth.⁶

AID field personnel seem to agree that the number of countries where AID has programs should be reduced. Recent responses to a world wide cable indicated a "strong consensus that the number of field missions should be reduced to realistically carry out the mandate."⁷ Suggested possible criteria included U.S. foreign policy interests, level of current economic development, status of national macro economic policy implementation, responsibility of local leadership, and eliminating programs below a certain annual program size. Procedural issues included establishing clear criteria and priorities, resisting political pressure over development criteria, establishing transition programs based on business links and science and technology, regionalizing some programs, shifting focus more to balance of

payment support, and making program closure part of the country strategy.

Recommendations

1. AID should concentrate field presence substantially by fiscal year 1996.

Administrator Atwood's closure and consolidation criteria should drive the mission consolidation process.⁸ U.S. government relationships should be redefined with two classes of recipient countries: first, those countries that have a poor track record in their ability to absorb or manage donor assistance, or have poor human rights records; and second, those countries whose economies have developed to the point where a donor/recipient relationship is no longer appropriate. Reflecting the post-Cold War foreign policy interests of the United States, realignment of field resources should not be bound by AID's geographical regions, but should be made based on a comprehensive review of U.S. global priorities. Major geographic shifts should be anticipated.

2. AID should support establishing the requirement that all assistance programs should include plans for graduation from U.S. assistance.

Program conclusion should be built into planning from the beginning. A clear message must be sent to all international development stakeholders that in the post-Cold War world assistance programs will, to a greater degree than ever before, be based not on geo-political expediency but rather on the demonstrated ability of recipient nations to absorb and manage resources, sustain development programs, and move toward open and democratic societies, as well as the foreign policy interests of the United States.

3. AID should aggressively explore opportunities to consolidate staff in regional offices serving a number of countries.

With a decreasing emphasis on maintaining fully staffed field missions, but a need for enough staff on the ground to adequately supervise development activities, regionalizing positions could increase the overseas staff return on investment. Also, increased use of telecommunication can further reduce the need for full time presence in every country.

4. AID should act to ensure that administrative functions overseas will be provided in the most cost-effective way without compromising quality.

AID maintains administrative structures nearly parallel to those of the Department of State. The rationale for this situation is that services provided under the Foreign Affairs Administrative Support (FAAS) process can often be provided more cost effectively by AID alone than by paying the State Department's "overhead" charges under FAAS.⁹ This suggests the need for a careful review by all Washington foreign affairs agencies of current policies governing administrative support functions. For example, consolidation has meant in the past that the Department of State assumes overall responsibility, whereas it might be more cost-effective in some cases for AID to provide general administrative support for the entire mission.

Implications

Many and diverse stakeholders have interests in the sustained operation of AID programs on a status quo basis. For this reason, like similar military base closure and U.S. domestic field office consolidation issues, broad participation and consensus in the closure process is vital. This is a transition process. In addition, bilateral partnerships can ease

AID's burden regarding countries that have clear development need but are of limited strategic interest to the U.S. In regions where there are few U.S. foreign policy interests AID must be prepared to accept a lower profile in relation to other lead western donor nations.

Fiscal Impact

Savings depend mainly on cutting discretionary programs which are heavily earmarked and would certainly depend on significant Congressional participation. It should be noted that AID is absorbing (according to its calculations) a \$50 million reduction in operating expenses from fiscal year 1993 to fiscal year 1994.

Following is a table indicating the effect of straight-lining the operating expense budget of AID through fiscal year 1999 at a budget authority ceiling of \$500 million. In this scenario the agency would be required to absorb inflation costs through staffing realignments, structural changes, and business process efficiencies.

FISCAL IMPACT TABLE

	In Millions of Dollars					
	1994	1995	1996	1997	1998	1999
Budget Authority	\$12.0	\$12.0	\$29.0	\$33.4	\$49.6	\$55.7
Outlay	\$9.0	\$11.4	\$24.5	\$31.4	\$44.9	\$60.4
Change in FTEs	xx.x	xx.x	xx.x	xx.x	xx.x	xx.x

Endnotes

1. According to a poll prepared in late 1992 by the Americans Talk Issues Foundation (ATIF), nearly half those polled believed that reduction of the size of U.S. embassies and

diplomatic activities is necessary in the interest of deficit reduction. An average reduction of \$500 million dollars was proposed for foreign assistance as a whole. In the same poll, respondents favored economic and humanitarian aid reduction by \$800 million or about sixteen percent of the current budget. This poll indicates that the public would support a reduction in foreign assistance. * The poll did not indicate whether the public favored reduced overseas presence in numbers of countries served, restricting the scope of programs, or a general reduction in foreign assistance. See The Americans Talk Issues Foundation, *What the American People Want in the Federal Budget* (Washington, D.C., November 1992).

2. The President's Commission on the Management of AID Programs ("Ferris Commission report"), *Action Plan--Working Draft #1* (Washington, D.C., March 2, 1992), p. 1.

3. Downgrading Mission and field offices to AID Representative status means operating in a country without the full administrative management infrastructure that normally accompanies an AID mission.

4. Ferris Commission report, *Action Plan*, p. 5.

5. U.S. Congress, Task Force on Foreign Assistance to the House Committee on Foreign Affairs, "Background Materials on Foreign Assistance," summary of remarks by Peter McPherson, June 28, 1988, p. 84.

6. Report of the Congressional Budget Office.

7. AID cable 143458--requesting field perspectives on AID's goals and priorities.

8. If the consolidation process bogs down, a potential model for decision-making exists. The Defense Base Closure and Realignment Commission was convened to downsize U.S. military facilities. The system was established to overcome the political paralysis that comes with the plethora of stakeholders concerned with retaining specific advantages inherent in the current structure. This commission is believed to be a model that can be effective in achieving downsizing despite the political barriers that exist.

9. See also NPR State Department team: "Reduce Mission Operating Costs by Eliminating Duplicative Services, Reforming Security Procedures and Examining USIA Libraries" in an accompanying report.

PART 5: SUMMARY OF FISCAL ESTIMATES TABLE**CHANGE IN BUDGET AUTHORITY**
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year						Change in FTEs
		1995	1996	1997	1998	1999	5-YRS	
AID 1	Redefine and Focus AID's Mission and Priorities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 2	Curtail Spending, Funding and Reporting Micromanagement	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 3	Overhaul AID Personnel System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 4	Decentralize FTE and Staff Resources	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 5	Improve the Contract and Procurement System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 6	Reengineer AID Management Using an Innovation Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 7	Reengineer AID Project/Program Management System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 8	Prepare for Mission Closure and Consolidation	\$12.0	\$29.0	\$33.4	\$49.6	\$55.7	\$179.7	0.0
	Total, Agency for International Development	\$12.0	\$29.0	\$33.4	\$49.6	\$55.7	\$179.7	0.0

CHANGE IN OUTLAYS
Numbers in Millions

Ch. Ref.	Recommendation	Fiscal Year						Change in FTEs
		1995	1996	1997	1998	1999	5-YRS	
AID 1	Redefine and Focus AID's Mission and Priorities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 2	Curtail Spending, Funding and Reporting Micromanagement	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 3	Overhaul AID Personnel System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 4	Decentralize FTE and Staff Resources	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 5	Improve the Contract and Procurement System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 6	Reengineer AID Management Using an Innovation Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 7	Reengineer AID Project/Program Management System	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	0.0
AID 8	Prepare for Mission Closure and Consolidation	\$11.4	\$24.5	\$31.4	\$44.9	\$60.4	\$172.6	0.0
	Total, Agency for International Development	\$11.4	\$24.5	\$31.4	\$44.9	\$60.4	\$172.6	0.0

PART 6: AGENCY REINVENTION ACTIVITIES

Introduction

In his confirmation hearing on April 29th, the Administrator of the Agency for International Development (AID), J. Brian Atwood, declared that he did not want reinvention efforts to be limited to a few pilot projects. Instead, he announced that the entire Agency would be offered up as a reinvention laboratory. Since then, Administrator Atwood has taken a number of steps to turn rhetoric into reality. Comprehensive plans are underway to transform AID into a high performance, results-driven organization that can respond effectively and efficiently to global challenges worldwide.

There is widespread recognition that AID must change profoundly if it is to be relevant to the post-Cold War era. This agreement on the need for fundamental change encompasses AID career staff, other U. S. Government agencies, the Congress and the concerned public. It is an important asset which supports AID reinvention efforts. But it also presents a complicated challenge because there are diverse views on what kind of change is appropriate. The recently completed report by the Deputy Secretary of State has started to resolve this debate. It will be the basis for establishing a broad consensus on the appropriate role and function of AID.

AID reinvention efforts encompass a wide number of activities. A Quality Council representing a cross-section of AID employees has been established to coordinate the reinvention plans. This Council meets weekly to review reinvention efforts and to the greatest extent possible ensure that all AID employees are given the opportunity to get involved in the reinvention process. To date, reinvention efforts include:

- *New mission and vision statements.* Working with AID political leadership, the Quality Council has developed new draft vision and mission statements for review, revision and dissemination within the agency.

- *Reorganization.* A new organizational structure has been developed to emphasize managing for results, creating incentives for individuals, accountability for results, reducing unnecessary bureaucratic layers and streamlining procedures.
- *Strategy statements.* Agency leadership has identified four priority areas for AID (population and health, the environment, democracy and economic growth). Strategies and operational guidelines have been developed to provide coherence and direction to AID programs.
- *Re-engineering the programming system.* AID is dramatically simplifying and reducing the four bulky handbooks governing the way the Agency programs its funds, and is actively exploring new ways to ensure that the programming process will emphasize results, rather than inputs. Pilot efforts are being initiated in selected field programs.
- *Right-sizing the field presence.* AID has reviewed all countries where it presently has activities and has identified specific steps to phase out some programs, reduce the size of other field offices, and to achieve economies by consolidating some services.
- *Simplifying information flows.* AID has adopted an Agency-wide information systems plan which is a model for other agencies. This will involve analyzing and re-engineering core business areas. Unnecessary reporting requirements are being identified and (where these are entirely within the authority of the Agency) will be eliminated; consultations are underway with Congress reducing congressionally mandated reports; and an integrated financial system is being developed and electronic processing of routine transactions (such as travel vouchers) is being initiated.

Vision for the Future

Over the next 3-5 years, AID will become a smaller, more focused organization with a clearly defined mission. To a significant extent, the success of AID's reinvention efforts will depend on its ability to secure cooperation and support from other key executive branch agencies (such as the State Department and OMB) and the Congress. In addition, a focus on results will mean that the current programming, monitoring and auditing systems overwhelmingly geared to tracking inputs will have to be re-examined.

APPENDIX

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AGENCY TEAM REPORT**

NATIONAL PERFORMANCE REVIEW

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AUGUST 10 , 1993

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction.....	1
II. Issue Papers and Recommendations	
A. Shifting from Red Tape to Results	
Issue 1: Implement a Consolidated Farm Management Plan.....	5
Issue 2: Administer the Employment and Training Requirement for Food Stamp Recipient More Effectively and Efficiently Through Other Job Training Programs.....	8
B. Introducing Market Dynamics	
Issue 3: The Forest Service Should Reinvent its Sales and Revenue-Sharing Programs to Increase Revenue, Prevent Fraud, and Provide Better Customer Service.....	11
Issue 4: Reduce Funding and Limit Eligibility for U.S. Department of Agriculture Export Promotion Programs.....	17
Issue 5: USDA Should Encourage and Facilitate Multi-State Contracts for Infant Food and Formula Cost Containment in the WIC Program.....	21
Issue 6: User-Fee Financed Programs Should be Exempt From Administrative Budgetary and Fiscal Constraints.....	25
C. Creating a Quality Management Culture	
Issue 7: Reorganize the Department of Agriculture to Better Accomplish its Mission and Streamline its Field Structure to Improve Service to its Customers.....	28
Issue 8: USDA Should Use its Penalty/Incentive System to Improve Accuracy in the Food Stamp Program.....	37
Issue 9: Deliver Food Stamp Benefits via Electronic Benefits Transfer (EBT) to Improve Service to Customers, While Remaining Cost Effective.....	41

Issue 10: The Department of Agriculture Should Implement a Quality Management Strategy to Improve Customer Service.....43

D. Now is the Time

Issue 11: End Wool and Mohair Subsidy.....46

Issue 12: Restrict Crop Deficiency Payments.....49

Issue 13: Eliminate Federal Support for Honey.....54

Issue 14: Make the U.S. Department of Agriculture's Tobacco Program Cost Free to the Taxpayer.....58

III. Agency Reinvention Activities.....61

IV. Fiscal Impact Summary.....66

USDA - OVERVIEW

The U.S. Department of Agriculture (USDA) is the fourth largest agency in the federal government; as a private enterprise, the department would rank ahead of IBM and just behind Ford. Most of the department's 110,000 employees work outside Washington, D.C. in regional, state or county offices. However, the USDA "family" extends beyond its federal workforce and includes 31,000 county extension agents in 3,500 offices, supported in part with federal funds, as well as 273,000 volunteers and 21,900 additional state and county employees.

This field structure, once considered a model for delivery of federal services, is now under fire in the popular media largely because the staff of USDA has increased while the number of farms and farmers has decreased. Although most people identify the department with its farm mission, 60 percent of its \$67 billion budget is in food assistance programs managed by the Food and Nutrition Service (FNS), while 30 percent of the department's staff maintain the nation's forests through the U.S. Forest Service (USFS). Less than 30 percent of USDA's annual outlays fall within the agriculture function of the federal budget.

In 1862, President Lincoln created the USDA to develop the best seeds and send the most helpful agricultural information to all farmers. That original mission continues today. During the great depression, the responsibilities of USDA were expanded to stabilize farm income and to assure the availability and quality of food and fiber products. One hundred years after its creation, during the 1960s, USDA was assigned responsibility for food and nutrition programs to assure that the most needy would not go hungry. While the number of farms and farmers was declining, the mission of USDA was expanding and becoming more complex. The department, however, continues to be organized and structured along the lines established in the 1930s to deliver services to farmers.

Today, USDA consists of 42 virtually autonomous agencies, most of which have their own support staffs. There are over 250 personnel offices, each dealing with its agency's personnel regulations. Each agency also has its own independent information

system, many of which are ineffective despite significant outlays for improvements. The FmHA loan portfolio is managed on color-coded index cards despite expenditure of over \$200 million since 1985 to automate its field office operations.

The individual programs in this large and diverse agency present a major management challenge. Confronting today's increasingly complex issues will pose an even greater challenge in the future. Rural development, global marketing, environmental protection and food safety bring together different and sometimes conflicting interests. No one office in USDA has complete responsibility for any of these issues. One senior official revealed to the General Accounting Office that in order to meet with officials working on the same issue, but under different agencies, he had to hire an independent consultant to identify the individuals and organize the meeting.

Four reinvention principles generated by the NPR are reflected in the recommendations for USDA, discussed in section two. The first principle, **Shifting from Red Tape to Results**, involves stripping away the barriers that prevent effective, efficient governance and program delivery. NPR believes that USDA has an opportunity to simplify environmental regulations for farm land management and recommends consolidating competing requirements into a single comprehensive plan for each farm. Additionally, NPR recommends eliminating an ineffective training program for food stamp recipients and empowering them to participate in programs with proven results.

Next, **Introducing Market Dynamics** to USDA's operations can replace cumbersome administrative procedures with more efficient market incentives. USDA's timber sales, export promotion activities and WIC program all can be harnessed to the market place to stretch the taxpayer's dollar. NPR recommends that USDA bring fees for land use and timber sales up to fair market rates and advocates greater accountability for participants in USDA's overseas market promotion and cooperator programs. Also, NPR encourages increased competition among infant formula vendors and manufacturers of other items in the WIC food package. Finally, USDA describes self-financing opportunities for programs designed to meet the special needs of specific customers, such as grain exporters.

Creating a Quality Management Culture involves reengineering the internal

processes by which USDA does its business. NPR urges the department to define and articulate its broader mission, especially its role in rural economic development, and organize its program agencies to respond better to its new role. At the same time, the department must streamline its field operations, especially county level offices, to serve better its original constituency, America's farmers. Additionally, NPR recommends that USDA establish incentives so that states will be encouraged to improve the accuracy of program operations, and use new Electronic Benefit Transfer (EBT) technology as the primary means of distributing food stamp benefits. Finally, USDA sets forth Secretary Espy's commitment to instilling a quality management awareness throughout the department which should facilitate a rapid cultural transformation.

By applying the principles of **Now is the Time**, USDA can do much to improve its services at less cost to the taxpayer by eliminating obsolete programs and restructuring others. Among the most outmoded programs are those supporting deficiency payments - a subsidy provided when the market price for certain crops falls below a legislatively established target price. It is clear that the primary beneficiaries of these programs are the wealthiest members of the food and fiber production industry, many of whom receive benefits through corporate shells. Reforms are needed to limit benefits while not overturning the underlying effort to maintain farm income at a viable level. Similarly, USDA's wool program is obsolete; wool is no longer a strategic commodity, as it was in 1954 when the program was initiated. NPR argues for elimination of the wool program.

The discussions that follow do not encompass all the issues and concerns within USDA. Some are addressed elsewhere, while others are not addressed at all. However, what is included covers a wide range of concerns and signals what more could be done. What is anticipated is that the process begun here will continue, additional issues will be identified and significant improvements implemented. In section three, USDA reports on the status of its internal efforts to reinvent the department, provides highlights of some of the specific projects underway, especially the plan for technological improvements, and summarizes the steps to be taken in the future. In summary, if accepted, the recommendations would reduce the deficit by \$5 billion over five years, improve the structure of the department and ability

of its work force to meet contemporary requirements and improve services to the primary recipients of USDA programs.

Section II

Issue Papers and Recommendations

Shifting from Red Tape to Results

IMPLEMENT A CONSOLIDATED FARM MANAGEMENT PLAN

Background

A bewildering array of laws, regulations and inter-agency jurisdictions frustrates farmers' efforts to comply with existing environmental and conservation laws and regulations. In pesticides application alone, three federal agencies (Department of Agriculture (USDA), Environmental Protection Agency, and the Food and Drug Administration) exercise jurisdiction.

The difficulties are compounded for farmers participating in USDA's commodity support and conservation programs. As the price of admission, participants are required to carry out specific environmental and conservation activities planned by USDA. However, farmers are often confronted with a number of different plans, some of which contain conflicting methods and goals.¹ Successful implementation of each USDA plan does not necessarily satisfy all federal interests. In one case, a farmer won approval from USDA to build a levee, but later was told by the Army Corps of Engineers, the Environmental Protection Agency, and the Fish and Wildlife Service to stop construction due to potential destruction to wetlands.²

The President's Office of Environmental Policy (OEP) is currently addressing jurisdictional issues related to water quality and wetlands protection. In addition, Representative Glenn English of Oklahoma has introduced legislation (HR 1440) to simplify compliance with USDA conservation requirements by creating a single plan for each farm. The proposal would consolidate various USDA plans into a single authority administered by the Soil Conservation Service (SCS). The consolidated plan relieves the farmer from dealing with multiple management plans for one farm. It also allows SCS to address a farm's conservation requirements as an integrated ecosystem, rather than focusing on isolated fragments of its environment.

Neither OEP's efforts nor the proposed House legislation fully respond to the complex environmental and conservation concerns associated with agriculture. OEP has not included pesticides use in its water quality task force, and Congressman English's proposal

does not deal with the questions of quality assurance, burden of proof (for compliance), liability for environmental damage, and the ability of SCS to successfully administer the single farm plan concept. HR 1440 also does not resolve jurisdictional questions beyond USDA. Nevertheless, efforts to resolve disputes among federal agencies and to simplify regulations and requirements for farmers will markedly improve the quality of the federal government's service to the agricultural sector as well as improve environmental quality.

Recommendations

- 1. OEP should continue its work in clarifying jurisdictional issues among federal agencies on the issues of water quality and wetlands protection.** The jurisdictional issues should be resolved by September 1994, with the result memorialized in an Executive Order.
- 2. The Administration should actively support passage of HR 1440, but should request language be added concerning assurance of the quality of consolidated farm management plans prepared, and mechanisms for assuring compliance with the consolidated farm management plans.** USDA should phase in the development of the plans. As a part of the quality assurance mechanism, a partnership between the USDA, EPA, Corps of Engineers, and the Fish and Wildlife Service be formed to review ten percent of the consolidated farm management plans per year. The partnership should identify issue areas most in need of monitoring -- such as water quality and wetlands protection.
- 3. In lieu of reaching compromise language on HR 1440, the Administration should implement an Executive Order to implement the consolidated farm management plan, which will include the provisions recommended above.** The Executive Order should be issued by September 1994.
- 4. The Consolidated Farm Management Plans will be used to set priorities for cost-share proposals from producers.** There must be a need identified from the site-specific plans to justify a cost-share proposal.
- 5. The plan should seek to coordinate with programs administered by other**

federal agencies and states but should not override or supersede requirements of other programs. In addition, compliance with the Consolidated Farm Management Plan does not guarantee full compliance with federal regulations, but SCS should incorporate as much federal standards into the plans as possible.

Implication

These recommendations will clarify federal jurisdiction over agricultural environmental and conservation planning. Furthermore, a consolidated farm management plan will provide better customer service to farmers and encourage greater participation in voluntary conservation programs.

Fiscal Impact

This recommendation is revenue-neutral.

Endnotes

1. For example, a farmer who rents farm land in Virginia and Maryland must produce 64 different conservation plans, and expects more required plans in the future. *Southeast Farm Press*, March 17, 1993, p. 43.
2. Testimony of T. Ray Chancey, American Agriculture Movement, before the House Committee on Agriculture, April 21, 1993, p. 3.

ADMINISTER THE EMPLOYMENT AND TRAINING REQUIREMENT FOR FOOD STAMP RECIPIENTS MORE EFFECTIVELY AND EFFICIENTLY THROUGH OTHER JOB TRAINING PROGRAMS

Background

Adult applicants for food stamps must register for work and training unless they are exempt from this requirement because of age, disability, or other considerations. Failure to comply with this requirement can result in disqualification from the program.

The number of food stamp recipients who must register for training and work is estimated at between 3.5 and 4.5 million persons per year in recent years. By statute, the Food Stamp Program must place at least 10 percent of these eligible registrants into a work/training program. Job search and job search training are the predominant components of food stamp employment and training programs. In 1988, over half of food stamp employment and training efforts were operated by or administered jointly with entities such as Job Training Partnership Act (JTPA) programs, local education, state employment service, and community action agencies.

Total fiscal year 1993 employment and training costs are estimated at about \$245 million, including state matching costs. Federal costs for the program total about \$160 million; \$75 million of this represents a federal grant for basic operating and administrative costs, distributed to each state by formula; the remaining \$85 million in federal funds is directed to 50 percent matching of administrative or operating costs above the state's portion of the formula-determined share of the \$75 million.

Current funding enables a recipient to attend a one-week class or receive some basic advice regarding how to review want-ads and conduct a job search. No data regarding how many participants are actually placed in jobs as a result of this program are available. Although many short-term food stamp recipients return to work within three to six months after becoming eligible for benefits, the impact of this program on their return to work is unclear. The recipients may have participated in the employment and training program, but they likely would have found gainful employment without the benefit of the program.

In contrast, the \$3 billion JTPA program applies a case management approach to job training, spending roughly \$2,000 to \$3,000 per person, and has proven to have a positive impact on employment rates of participants. The JTPA program already is open to individuals eligible for food stamps, and many states use it to fulfill the requirements of the food stamp employment and training program. Additionally, the JOBS program serves a number of food stamp recipients, primarily those eligible for Aid to Families with Dependent Children.

Recommendation

The United States Department of Agriculture should submit legislation to amend the Food Security Act to eliminate the food stamp employment and training program. Eligible food stamp recipients should continue to meet employment and training requirements if they remain eligible for benefits for more than six months. The needs of these recipients could be better served if this requirement were met by referring eligibles to the JTPA or JOBS programs. A separate organization to administer food stamp employment and training requirements is not needed. Eliminating it will save the \$160 million federal funding currently directed to this program. Additionally, funds will no longer be directed to those recipients who are simply between jobs, and really do not need the training. Finally, those recipients truly in need of job training will be directed to a program for which they are already eligible, and which is better able to serve their needs.

Implications

States should be in favor of having the administrative burdens associated with this aspect of the Food Stamp Program lifted. This recommendation will not increase the number of individuals eligible for the JTPA program, because food stamp recipients are already eligible for the JTPA program. Although this recommendation actually strengthens the work and training component of the Food Stamp Program, Congress could view the decrease in funding as an erosion of support for food stamp recipient work requirements.

Fiscal Impact

This recommendation saves approximately \$840 million over five years by eliminating program and administrative costs.

FISCAL IMPACT TABLE

Savings In Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$163.7	\$165.9	\$168.2	\$170.5	\$172.9
Outlay	\$163.7	\$165.9	\$168.2	\$170.5	\$172.9
Change in FTEs	-20	-20	-20	-20	-20

Introducing Market Dynamics

THE FOREST SERVICE SHOULD REINVENT ITS SALES AND REVENUE-SHARING PROGRAMS TO INCREASE REVENUE, PREVENT FRAUD, AND PROVIDE BETTER CUSTOMER SERVICE

Background

The U.S. Forest Service is one of the largest land managers and revenue generators in the federal government. In fiscal year 1992, the Forest Service managed more than 191 million acres of land, and generated \$1.39 billion in receipts through timber sale and other fee programs.¹

Even with these impressive results, the Forest Service's revenue-generating programs do not capture a fair market price for services rendered, and in some cases produce unintended consequences. The Forest Service lost an estimated \$50 million in revenue from below cost timber sales in 1992.² While some timber sales, such as salvage sales and sales for the purpose of creating old growth characteristics in late-successional old growth forests, are conducted for non-commercial purposes, a large number of commercial sales are conducted on a below-cost basis. One reason for this is the escalating cost of preparing a timber sales site. The average cost of preparing an acre of forest for sale has risen from \$.50 in 1914 to, in some cases, more than \$600.00 today, with the national average of \$54.73.³ The increased cost is in part due to environmental assessments requirements under the National Environmental Policy Act, and biological surveys required under the Endangered Species Act. Additionally, marketable timber by-products, which can be sold for up to \$100.00 per acre, are not being aggressively marketed.⁴

The Forest Service is losing revenue through both the bidding and harvesting processes.⁵ In areas where there are relatively few buyers, open bidding is prone to collusion, which results in artificially low bids. The final price paid by the buyer is based on the usable board-feet harvested, estimated through the weighing process. Some buyers collude with weight scale operators so the timber estimate is much lower than the actual harvest. Timber theft also takes place when timber buyers cut trees not marked by the Forest Service.

In addition to mishandled timber sales, the Forest Service operates revenue-sharing programs that have the unintended incentive of promoting ineffective forest and financial management. For example, the Knutson-Vandenberg Act (K-V Act), passed by Congress in 1930 and amended in 1976, allows the Forest Service to retain an unspecified portion of the timber sale proceeds for reforestation, wildlife preservation, recreation, and conservation of natural resources within one-quarter mile of a timber sales site.⁶ The Forest Service retained over \$251 million in K-V funds in fiscal year 1992 on revenues of \$934 million.⁷ As a result of the site-specific provision for the use of funds, the K-V fund creates perverse management incentives. For example, biologists at Montana's Gallatin Forest decided that the best way to protect the grizzly bear is to provide solitude, since most bear deaths are attributed to humans. To achieve that goal, the Gallatin National Forest built roads and sold timber from 125,000 acres of prime grizzly habitat in order to generate K-V receipts, which were then used to close new as well as existing roads.⁸

Another example of misdirected incentives is the community revenue-sharing program. The Forest Service has standing agreements with local communities to provide supplemental funding for schools and roads through a payment to communities equaling 25 percent of net proceeds from Forest Service revenue, in addition to a payment in lieu of tax fund (PILT) administered by the Bureau of Land Management, which is based on population and the amount of entitled land under federal ownership.⁹ The revenue-sharing portion of the payment amounted to \$305 million in fiscal year 1992.¹⁰ Communities experiencing revenue shortfalls attempt to encourage the Forest Service to harvest timber beyond sustainable growth levels in order to boost local revenues.¹¹ Also, with decreasing standing timber stock in some areas, the revenue-sharing fund no longer provides a reliable stream of revenue for many dependent local communities.¹²

Finally, a recent General Accounting Office (GAO) report claims that below market fees are charged for space rentals (ski areas).¹³ In fact, while the ski area operators on federal land collected more than \$737 million in gross sales in 1991, the operators only paid the Forest Service \$13.5 million, or 2.2 percent of the total revenue generated.¹⁴

Recommendation

1. The Forest Service should reinvent the timber sales process to reduce fraud and increase revenue. The Forest Service should contract out pre-sale surveys to independent parties, convert to sealed bidding for all timber sales, market timber by-products when feasible, and reinvent the weighing process to eliminate cheating, or consider using the scaling method, which estimates number of board feet of timber more accurately.¹⁵

2. The Administration has committed to phase out below-cost timber sales over a four-year period. The Forest Service should reinvent the decision-making process for timber sales. The Forest Service should identify a list of National Forests that will no longer conduct timber sales in the future. Priority for discontinuation of timber sale should be set based on the size of loss resulting from timber sales, as well as economic impact to the local economy. The priority list should be established no later than June 30, 1994. All below-cost timber sales should stop by June 30, 1997. Salvage sales and sales for the purpose of creating old growth characteristics in late-successional old growth forests should be exempted from this policy. Where timber sales will continue, the cost of preparing the sale should include purchaser road credit given to buyers, and the costs of conducting necessary surveys and studies.

3. The Administration should discontinue the community revenue-sharing program and seek to amend the Payment-In-Lieu of Taxes Act to replace the old PILT program with a new formula. The new formula should be calculated on the basis of average land value over ten years, with a mechanism to adjust for population decreases based on census data, and adjusted once every ten years. Furthermore, use of PILT payments should be left to the discretion of the state or county official. The new PILT program should remain a discretionary program.

4. The Administration should seek to amend the Knutson-Vandenberg Act. The Forest Service should be allowed to administer K-V funds on a National Forest basis, rather on sales-site basis to provide for greater management flexibility in managing national forests. Under the amended act, a forest manager should be able to use a "pot" of K-V

funds generated from the National Forest under his/her management, and apply the fund for improvements in any part of that National Forest.

5. The Administration should support the Forest Service in implementing market fee schedules for ski areas under Forest Service management. The Forest Service is completing a market rate study for ski areas. The Forest Service should recommend new rates for ski area rentals to Congress by October 31, 1993.

Implications

The proposed changes will improve management of timber sales, increase returns to the Treasury and provide a more steady revenue stream to the local communities. Improved timber sales management will not only reduce fraud in the timber sales process, but also increase sales revenue. Amendments to the Knutson-Vandenberg Act will also improve the management of national forests by giving forest managers greater flexibility. By eliminating below-cost timber sales, net revenue from timber sale will increase, while precious natural resources will be preserved. Finally, by eliminating the 25 percent revenue-sharing funds and restructuring PILT payments, local communities dependent on such revenue will receive a considerably less volatile stream of revenues over time, which allows for better long-term planning for the communities.

Fiscal Impact

Aggressive sales of timber by-products will increase revenue by \$1.6 million per year, based on an estimate of 20 percent of 1992 logged areas as having marketable timber by-products, and receiving \$50.00 for each acre of timber by-products. The House Appropriations Committee estimates that \$100 million per year can be saved through improved timber sales practices. The Forest Service estimates that through contracting, 2,500 FTEs can be saved over five years. By phasing out below cost timber sales, the Forest Service should save over \$360 million over five years, in addition to saving 4,600 FTEs over the same period. By abolishing the 25 percent fund and restructuring PILT payments, communities will have a more stable revenue stream over time with no net fiscal

impact. The Knutson-Vandenberg Act Amendments will allow greater management flexibility for forest managers, and should have no net budgetary impact. Finally, implementing market fee schedules for ski areas and communication sites will increase revenue by \$20 million per year.

FISCAL IMPACT TABLE

Savings In Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$ 46	\$ 59	\$ 83	\$ 86	\$ 86
Outlays	\$ 46	\$ 59	\$ 83	\$ 86	\$ 86
Receipts	\$ 21.6	\$ 21.6	\$ 21.6	\$ 21.6	\$ 21.6
Changes in FTEs	-1,250	-1,350	-1,500	-1,500	-1,500

Endnotes

1. U.S. Department of Agriculture Forest Service, *Report of the Forest Service Fiscal Year 1992*, (Washington, D.C., February 1993, selected fiscal year 1992 statistics, inside cover).
2. Calculations based on U.S. Department of Agriculture Forest Service, *Timber Sale Program Annual Report, Fiscal Year 1992, Forest Level Information* (Washington, D.C., February 1993).
3. General Accounting Office, written communication, (Washington, D.C., June 23, 1993, p. 1 and appendix). The \$.50 per thousand board feet return to the Treasury as a minimum stumpage price in the Forest Service's 1914 Timber Appraisal Manual was set on the premise that amount was the approximate cost of making commercial, non-salvage sales. Since that rate was established, such costs have significantly increased because of additional work and inflation. The average cost for timber sale preparation and administration for 1992 was estimated at \$54.73 per thousand board feet (MBF) harvested, with a high of \$628.42 per MBF for the Los Padres National Forest in Region 5, and a low of \$21.19 per MBF for the Superior National Forest in Region 9. Loss of revenue figure based on Forest Service comments, (Washington, D.C., August 2, 1993).

4. Personal communication with Rod Collins, NPR team member. Note that the sales of timber by-products may not be desirable for all timber sales for reasons of economic viability or conservation.
5. The Mail Tribune, *House Panel Faults Timber Sales*, May 4, 1993, p. 2A; General Accounting Office, *Federal Timber Sales: Process for Appraising Timber Offered for Sale Needs to be Improved*, (Washington, D.C., May 1990).
6. Randal O'Toole, Cascade Holistic Economic Consultants, *Reforming the Forest Service*, p. 136, (Washington, D.C., 1988).
7. Op.Cit. Forest Service comments, p. 1.
8. Op.Cit. Randal O'Toole, p.136.
9. Payment in Lieu of Taxes Act of 1978, PL 94-565.
10. Op.Cit. U.S. Department of Agriculture Forest Service, *Timber Sale Program Annual Report, Fiscal Year 1992, Forest Level Information*, (calculations based on figures provided).
11. Karen Knudsen and Randal O'Toole, Cascade Holistic Economic Consultants, *Other People's Money: The Case for Reforming the 25 Percent Fund*, p. 7, (Eugene, Oregon, September 1992).
12. V. Alaric Sample, Forest Policy Center, *Components of a Forest Conservation and Economic Transition Assistance Plan for the Pacific Northwest*, p. 19, (Washington, D.C., May 12, 1993).
13. General Accounting Office, *Little Assurance That Fair Market Value Fees are Collected From Ski Areas*, April 1993. The issues of communication site fees (charged for transmission towers, etc.) and grazing fees are being addressed by the NPR Department of Interior Team.
14. Op.Cit. General Accounting Office, p. 19.
15. Personal communication with Doug Crandall, Anne E. Heissenbuttel, and Mark E. Rey, American Forest & Paper Association, May 27, 1993.

REDUCE FUNDING AND LIMIT ELIGIBILITY FOR U.S. DEPARTMENT OF AGRICULTURE EXPORT PROMOTION PROGRAMS

Background

The federal government allocates about \$4 billion annually for export promotion activities.¹ The U.S. Department of Agriculture (USDA) spends almost 75 percent of these funds; however, agricultural products account for only about 10 percent of all U.S. exports. USDA's Market Promotion Program (MPP) alone spent more money in fiscal year 1991--\$200 million--than did the entire Commerce Department on export promotion in the same year.²

USDA's disproportionate share of funding offers at least tacit recognition that its programs historically have been successful in promoting the sale of U.S. food and fiber products abroad. American farm products lead the world market today, despite growing competition from the European Community.

Increasingly, however, USDA has come under fire for lax management and poor oversight of its export activities. Critics claim the Foreign Agricultural Service (FAS), through which USDA administers the majority of its international programs, has failed to develop adequate criteria for program participation and has given insufficient attention to program evaluation.³

Most public criticism has been directed at the MPP, in which government funds are used to offset advertising and promotional costs for U.S. products overseas. Critics claim the program subsidizes millions of dollars worth of brand name advertising for private firms that may have invested in foreign markets without the addition of federal support; in fact, about 40 percent of MPP funds benefit brand name products.⁴ Critics also opposed supporting the sale of tobacco overseas on the grounds that it was inappropriate for the federal government to promote a product which poses a severe international health hazard. Congress prohibited funding for tobacco products under the MPP in 1993. The Clinton administration requested \$149 million for the MPP this year.

The Congressional Budget Office (CBO) and the General Accounting Office (GAO)

also have targeted the cooperator market development program for extending benefits to participants beyond a reasonable "seed," or start-up period.⁵ The program funds overseas commodity groups representing American producers and trade associations in market development activities. It differs from the MPP primarily in its commitment to building markets rather than gaining immediate access. "Cooperators" are expected to make some fiscal contribution to the program, although the kind of contribution (money or services) and the amount is not effectively monitored or evaluated.⁶ Furthermore, cooperators seldom graduate from the program after their products have gained a solid market niche and continue to receive federal funding almost as an entitlement.⁷ The Clinton administration reduced funding in fiscal year 1994 for the cooperator program by about one-third, to \$20 million.

FAS has failed to respond satisfactorily to its critics and likely will cede control of the MPP and cooperator programs to piecemeal legislative fixes unless it adopts a more aggressive management style. Senator Patrick Leahy already has introduced a bill requiring FAS to establish stricter eligibility requirements for the MPP and to dedicate 30 percent of its funds to small and medium sized organizations.⁸ Meanwhile, the current sluggish response to legitimate criticism is tarnishing the historic success of USDA's export endeavors.

Recommendations

1. The U.S. Department of Agriculture should request a reduction in the fiscal 1994 appropriation request from \$149 million to \$100 million, a one-third reduction in authorized funding, or about the same amount currently spent on promotion of brand name products. In conjunction with a funding reduction, FAS should require evidence, obtained through an annual audit from program participants, that federal funds contribute to market promotion activities that otherwise would not be possible. FAS also should require a graduation requirement for participants establishing a three to five year limit for receipt of federal MPP funds. Furthermore, MPP application weighing criteria should favor proposals countering unfair trade practices and promoting export activities of small and medium sized firms which are least able to bear the risk of international marketing. Estimated savings

would amount to about \$47 million annually, using the current funding level of \$147 million as a base.

2. FAS should develop and implement a graduation requirement for participants in the cooperator program. The requirement should limit cooperator contributions to funds or services directly related to specific promotional activities (as opposed to rent and other overhead expenses), and should increase contributions from a variable base to 100 percent over a ten year period. This recommendation is essential to ensure that the funding cut implemented by the Clinton administration results in greater program effectiveness rather than simply an across the board reduction in existing practices. This recommendation would require only administrative action by FAS.

3. The Administration should continue the ban on supporting tobacco sales into 1994. The administration should request language in the funding bill specifically banning MPP funds for tobacco in 1994 and beyond.

4. USDA should require the Economic Research Service to make an annual evaluation of market promotion and development programs.

Implications

Reduced funding and more stringent eligibility requirements will cause some participants in USDA's export programs to drop out. Those that have been successful in developing markets will likely remain in the international arena without federal support; others will abandon losing efforts. In any case, decisions will be based on market reaction rather than government largess. Furthermore, redirecting priorities to smaller entities or to new entrants in the international arena will extend government resources to those least able to bear the initial risk of international marketing and most in need of technical advice and information. FAS officials have indicated their intention to direct funding in this manner.

Fiscal Impact

Reducing MPP funding by one- third would save about to \$49 million annually.

FISCAL IMPACT TABLE

Savings Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	49.2	49.2	49.2	49.2	49.2
Outlays	49.2	49.2	49.2	49.2	49.2
Changes in FTES	0	0	0	0	0

Endnotes

1. Estimate provided by the Office of Management and Budget to the National Performance Review, July 1993.
2. Ibid. p. 2.
3. U.S. Congress, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, House Committee on Appropriations, testimony by Allan Mendelowitz, February 23, 1993, p. 4.
4. Government Accounting Office, *Agricultural Trade - Improvements Needed in Management of Targeted Export Assistance Program*, (Washington, D.C., 1990), pp. 1,6.
5. Government Accounting Office, *International Trade - Review of Effectiveness of FAS Cooperator Market Development Program*, (Washington, D.C., 1987), p. 16.
6. Ibid., pp. 38, 44.
7. Ibid., p. 8.
8. U.S. Congress, Senate, *Agricultural Market Promotion Program Amendments Act of 1993*, 103rd Congress, 1st sess., 1993, S948.

USDA SHOULD ENCOURAGE AND FACILITATE MULTI-STATE CONTRACTS FOR INFANT FOOD AND FORMULA COST CONTAINMENT IN THE WIC PROGRAM

Background

The Special Supplemental Food Program for Women, Infants and Children (WIC) was established in 1972 to improve the health of at-risk, low-income pregnant women, new mothers, infants and children under age five by providing them supplemental foods, nutrition and health education, and health screening. Administered by the Food and Nutrition Service (FNS) of the Department of Agriculture (USDA), the program awards grants to state health departments or state health and welfare agencies to provide nutrition services.

The WIC program is successful and cost-effective with regard to prenatal WIC services. A 1992 General Accounting Office (GAO) study estimated the savings that accrue over 18 years from providing prenatal WIC services to those infants born in 1990 would yield a return of \$3.50 for each federal dollar invested.¹ There are no cost/benefit studies available for children age two through four assisted under the program.

This success has led to strong bipartisan support for the WIC program in Congress. Funding for the program has increased from \$900 million in fiscal year 1981 to \$2.86 billion in fiscal year 1993; participation also has increased from 2.1 million to an expected monthly average of 5.8 million participants during this same period. The program, however, does not reach all those eligible for it. In 1991, the Congressional Budget Office estimated that 8.4 million women, infants, and children were eligible to participate in the WIC program, although available funding allowed only 4.7 million to be served².

The fiscal year 1993 program is expected to serve about 67 percent of all those eligible. Although proposals to fully fund the program are under consideration, cost containment efforts in the WIC program remain critical because, currently, they provide the opportunity to serve hundreds of thousands of participants whose nutritional needs would otherwise be unmet. Enhancing and extending cost containment efforts can lower WIC

costs and serve more participants with limited funds.

Infant formula is the single most expensive item in the WIC food package, with prices rising much faster in recent years than the prices of other WIC-covered items. During the 1980s, some states distributing food through retail stores implemented infant formula cost containment efforts. These efforts required infant formula manufacturers to compete for selection as the single source of infant formula products used by a state WIC program--all WIC program participants from that state were required to purchase only a specific brand of infant formula, for example Enfamil or Similac. Contracts were awarded to the manufacturer offering the highest rebate to a state.

In 1988, Congress mandated that all WIC state agencies implement some form of infant formula cost containment, and in 1989, Congress added the requirement that states use competitive bidding in their cost containment efforts. An estimated \$600 million was saved in fiscal year 1991 through cost containment efforts and redirected to serving additional participants.

Although experts agree breast feeding provides a healthier and more economical means of feeding an infant, as recently as 1987, less than 40 percent of early postpartum WIC mothers were breast feeding. The WIC program seeks to encourage breast feeding by providing an expanded food package to mothers who elect to breast feed.

Infant cereal offers the next logical item from the WIC package to consider for cost containment targeting. There is little variety in infant cereals, and most are manufactured by three companies--Gerber, Beech-Nut, and Heinz. Six states have entered into agreements for rebates with infant cereal manufacturers. For example, New York currently is receiving a 76 cent rebate on each box of infant cereal purchased under the WIC program.

Although the savings potential from these efforts remains somewhat less than the savings achieved from infant formula (the price of infant formula increased nearly 11 percent per year over the last decade, while fruit juices increased less than six percent per year), a federal-level effort holds the potential to achieve savings. Additional areas of exploration could include foods appropriate for older children, such as dry cereal, where brand name and generic products compete for market share.

If the WIC program is fully funded, as has been proposed, the pressure for states to keep costs down may be reduced; it will fall to the federal government to ensure the focus on cost containment efforts is not lost.

Recommendations

1. The United States Department of Agriculture should continue and expand its educational efforts to promote breast feeding. Funding for breast feeding promotion has increased in recent years. FNS may want to consider entering into agreements with advocacy groups such as the La Leche League or the Ad Council to expand its promotion of breast feeding to low-income mothers, emphasizing the health and nutritional advantages afforded to breast fed children.

2. The federal government should assume a leadership role in cost containment efforts and include additional items in the WIC food package such as infant cereal, juice and other food products. FNS should disseminate information about initiating contracts for items other than infant formula, serving as a broker or facilitator for multi-state contracting efforts for rebates on items such as infant cereal or juice, offering states the option of participating. FNS's authority to direct a portion of its appropriation toward testing new cost containment strategies offers an immediate vehicle for funding these efforts. This testing should be included in fiscal 1995 budget plans.

Additionally, FNS should develop a semi-formal channel of communication with the Federal Trade Commission, to provide an "early alert" system for trends reflecting bid-rigging in connection with WIC contract bidding.

3. The federal government should expand its role in disseminating "best practices" information to states interested in pursuing multi-state cost containment efforts. Many states have been successful, without federal oversight, in developing multi-state consortia to achieve economies of scale in awarding contracts to infant formula manufacturers. Other states, and Indian reservations may find the experiences and information from their counterparts in other parts of the country useful in pursuing their efforts. A more aggressive federal role in this area will ensure that interested parties receive thorough, accurate

information quickly. FNS should develop "Best Practices" materials to distribute to WIC agencies, and update them regularly.

Implications

These recommendations would serve to hold down costs of the WIC program, as well as emphasize the nutritional well being of program participants.

Fiscal Implications

If Congress fully funds the WIC program, cost containment efforts would result in actual savings; if the program funding levels remains unchanged, savings could be redirected to serving additional entitled women, infants, and children.

Savings from expanding cost containment efforts to include additional items in the WIC food package will total approximately \$390 million over five years.

FISCAL IMPACT TABLE

Savings In Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$ 0	\$50	\$110	\$115	\$120
Outlay	\$ 0	\$50	\$110	\$115	\$120
Change in FTEs	0	0	0	0	0

Endnotes

1. U.S. General Accounting Office, *Early Intervention Federal Investments Like WIC Can Produce Savings*, (Washington D.C., April 1992), p. 29.
2. Congressional Budget Office, *Estimated Costs to Provide Full Funding for the Special Supplemental Food Program for Women, Infants and Children (WIC)* (Washington D.C., March 1991).

USER-FEE FINANCED PROGRAMS SHOULD BE EXEMPT FROM ADMINISTRATIVE BUDGETARY AND FISCAL CONSTRAINTS

Background

The following agencies within the United States Department of Agriculture (USDA) operate a wide variety of user-fee funded programs: the Agricultural Marketing Service (AMS); the Animal and Plant Health Inspection Service (APHIS); the Federal Grain Inspection Service (FGIS); the Food Safety and Inspection Service (FSIS); the Forest Service (FS); and the Soil Conservation Service (SCS).

Even though many of these programs are, in whole or in part, self-supporting, they continue to be subjected to the same administrative budgetary and fiscal constraints that are applied to programs funded through General Fund appropriations (i.e., tax dollars). These constraints, which are designed to facilitate budgetary and fiscal control, are not necessary with self-supporting programs, and, when imposed on these programs, do nothing to reduce the deficit. These programs are, essentially, revolving no-year funds. All revenue is received from fees charged for services and all costs associated with providing the service are charged against the revenue earned. Finally, no tax receipts are used..

For example, in an effort to improve the efficiency of the Federal Government and decrease the growing Federal deficit, several Government-wide administrative cost and staffing reductions were recently applied across-the-board to all Federal programs, including the user-fee financed programs within USDA. In addition, budgeted staff year ceilings for fiscal year 1993 were set at a level that, in some cases, is lower than fiscal 1992 staff years worked and less than the anticipated fiscal 1993 work load.

The USDA user-fee programs affected most directly are the voluntary agricultural commodity grading programs of AMS and FGIS and the mandatory agricultural import quarantine inspection services of APHIS. In fiscal 1992 these three agencies collected \$188 million in user fees. These receipts offset operating expenses. If user-fee receipts exceed operating expenses, the surplus funds are maintained in reserve and used later to offset increased operating expenses prior to the implementation of a fee increase. Similarly, if

operating expenses exceed user-fee receipts, the deficit is satisfied through a reduction in reserve funds.

The proposed reductions in positions and administrative expenses may leave unmet the needs of customers who require a Governmental service and who are willing to pay for it. As an example, in USDA's commodity grading Agencies, these arbitrary cuts will result in a denial of grading and other user financed services to some USDA customers. They will also result in economic losses to the individuals or firms requesting the service and will put them at a competitive disadvantage with others who receive the service. In addition, many of the Federal Government's food buying programs (e.g., the School Lunch Program) require grading services to assure that the agricultural products they buy meet their preestablished contract requirements. If a customer is denied AMS or FGIS grading/acceptance services, they cannot compete for Government purchasing contracts. In order to carry out the required cost and staffing reductions, USDA would be in the uncomfortable position of having to decide which customers will be denied service.

The size of various user-fee funded programs varies depending upon the segment of the industry served and the demand for service. For example, the size of AMS and FGIS' grading service programs varies with changes in agricultural production. AMS and FGIS employ both full-time and seasonal or intermittent employees to meet workload demands. As crop sizes and workload demands increase, these seasonal employees work for longer periods to ensure that adequate grading services are available. This also helps to assure continued efficient marketing and increased returns to producers. However, meeting workload demands in high production years also requires an increase in staff years.

For example, in an ordinary year, AMS grades about 11 or 12 million bales of cotton. The 1993 crop, however, will come in at about 17 million bales. AMS will have to either add staff time to cover this increase in demand for service, or deny service to some cotton producers who want the service and are willing to pay for it.

Recommendation

User-fee funded programs which are totally self-supporting should be exempt from

the administrative budgetary and fiscal constraints imposed on programs funded through General Fund appropriations. Administrative constraints and reductions to these self-supporting programs do not save any tax dollars and do not help reduce the Federal deficit. However, exemption from these constraints would allow these user-fee funded programs to better serve their customers.

Implications

Exempting user-fee funded programs from administrative budgetary and fiscal constraints would: (1) allow these programs to respond more rapidly to the increasing or decreasing needs of their customers; and (2) virtually eliminate the possibility of program disruption due to factors which do not actually pertain to these self-supporting programs (e.g., the Federal deficit, balancing the Federal budget, etc.). Failure to exempt these user-fee funded programs, which are operated at no cost to the Federal Government, from these administrative constraints could adversely impact USDA's ability to provide service.

Fiscal Impact

The recommended action would not result in either additional costs or savings to the Federal Government. However, it would allow Agencies to better serve their customers and make it considerably easier for the Agencies to fulfill their missions.

Creating a Quality Management Culture

REORGANIZE THE DEPARTMENT OF AGRICULTURE TO BETTER ACCOMPLISH ITS MISSION, STREAMLINE ITS FIELD STRUCTURE AND IMPROVE SERVICE TO ITS CUSTOMERS

Background

Over the past few years, significant criticism of the U.S. Department of Agriculture (USDA) has appeared in the popular media (*Reader's Digest*, NBC News, Prime Time Live, 60 Minutes, etc.). The criticism focuses on two major issues: the size of the department and its budget relative to farmers, and the number and location of its county field offices. Although much of the criticism is justified, it represents an oversimplification of the issues. The focus of USDA has shifted dramatically since the 1930s, and its statutory responsibilities have expanded to encompass much more than farming. The department now has responsibilities for food and nutrition programs (60 percent of budget), natural resources management (30 percent of staff) and rural economic development. Less than 30 percent of the department's annual outlays fall within the agriculture function of the federal budget.

The headquarters organization of the department does not reflect clearly the diverse mission of USDA. The Secretary is responsible for 42 agencies managing 250 programs reporting through nine under and assistant secretaries. There is duplication of authority and responsibility among the agencies. For example, eight different agencies have some degree of responsibility for marketing agriculture products. Similarly, nine agencies are responsible for water quality concerns. The challenge to the Secretary is to articulate a comprehensive mission which encompasses the various interests of the department and to reorganize the agencies to provide cohesive direction for the department's programs.

Chief among the missions needing specific definition is the role of the department in fostering the interests of rural America beyond the agricultural arena. In 1988, the National Governor's Association urged the federal government to work with the states and local government "...to build a new federal-state-local alliance that consolidates and increases the flexibility of programs that serve rural America."¹ Since then, the Rural Development

Administration has been established in USDA, and some initial coordination efforts have begun through the National Initiative on Rural America.² Basic to the initiative are State Rural Development Councils, organized by the governors and broadly representative of the stakeholders in the state. Through a memorandum of understanding, signed by the governors of individual states and the Secretary of Agriculture, agreements are reached to form a working relationship with the federal level. In exchange, modest funds are provided to each State Council for support of staff salaries. In addition to the 37 Councils in operation, eleven more states are ready to sign agreements. However, representatives of the National Governor's Association and other interested groups have expressed concerns that departmental support for these Councils may be lacking.

In addition to clarifying its role in rural development, the department needs to rethink and revamp the programs providing direct services to the farm community. To make the department more responsive to its current farm mission and streamline its services and staff, the Clinton Administration has proposed the creation of a new Farm Service Agency (FSA) which, for purposes of presenting the fiscal 1994 budget, would consolidate the Agricultural Stabilization and Conservation Service (ASCS), the Soil Conservation Service (SCS) and elements of the Farmers Home Administration (FmHA).³ This consolidation would result in a reduction in county offices from an average of nearly three per county to less than one. Similar measures have been introduced in Congress.⁴ Planning and analysis are currently underway in USDA for farm service agency implementation. The resulting structure should be a clear reflection of the department's newly focused mission and include focal points in the department for the current intra- and interagency cross-cutting issues such as environmental concerns, rural development, marketing and inspection as well as address the concerns of the farm community.

USDA's county field structure is symptomatic of its organizational problems and is in need of major overhaul.⁵ USDA county-based agencies operate, either directly with federal employees or indirectly through financial support for state and county employees, over 12,000 offices in the 3,158 counties in the Nation. County field offices of some agencies within the department appear to have remarkably few customers. For example, the ASCS

office in Gregg County, Texas serves 15 farmers, and Douglass County, Georgia has 17 customers for ASCS and SCS services. In addition, there may be as many as four different county-based USDA agencies each in a different location within the same county. In January 1991, the General Accounting Office (GAO) issued a detailed analysis of approximately 2,700 ASCS county offices to determine costs to deliver a dollar of ASCS benefits. Using its cost effectiveness standard of ten cents of administrative cost per dollar of benefits provided, GAO found that 32 percent (856 offices) were not cost effective.⁶ Those offices spent ten cents or more in administrative costs for every one dollar in benefits provided. GAO estimated that closing these offices would generate significant savings, concluded that similar findings would result for the other field agency offices and recommended that additional criteria be developed to determine if a larger problem existed.⁷

The department has undertaken a more comprehensive approach to evaluate information regarding the various field installations of all of its agencies.⁸ The department reviewed county-based agencies (ASCS, SCS, FmHA) as well as the Federal Crop Insurance Corporation (FCIC) against six criteria to determine an estimate of the continuing "need" for a particular county office. All county offices within an agency were ranked on each quantitative measure for each criterion and given a score based on deciles. The scores were then weighted to produce an index that gave each office a single numerical rating for necessity; a high number, up to 1,000, indicated little necessity. These criteria were applied against 8,400 offices representing one of the three county-based agencies in a total of 3,700 locations. This analysis was used to identify approximately 1,200 field offices as candidates for closure through consolidation resulting in 1,100 fewer locations. Among those identified was the SCS office in the District of Columbia with a perfect score of 1,000. Secretary Espy has made the department's state agency leadership responsible to assure that implementation of this analysis improves efficiency of offices and, equally important, enhances customer service.

In addition to the county office structure there is an intermediate structure--state and area offices--which has its own set of problems. These offices were established to provide direction and communication between the policy levels at headquarters and the service

delivery units in the counties. They have evolved into an additional bureaucratic layer between policy makers and service providers. Non-county based agencies also have a wide variety of regional structures which appear to be redundant administrative layers. Current communication technologies obviate the need for many of these intermediate offices. For example, the field structure analysis described earlier also reviewed non-county based agencies including the U.S. Forest Service (USFS). While recognizing that USFS has reduced its office structure considerably since 1965, that effort analyzed options to further reduce the current nine USFS regions to as few as five and identified potential savings for each model. The analysis was extended beyond the regional level to include review of subordinate forest and ranger district levels. As with the county-based agencies, data exist to support elimination and consolidation of the field structures of the non-county based agencies as well.

Reducing the size of the field structure need not equate to a reduction in level of field service. USDA has been a leader in many applications of scientific advances and its research capacity is considered among the very best. The department must accelerate the development of technological applications to provide increased service to its customers. The department's Food and Nutrition Service has been at the forefront of Electronic Benefit Transfer (EBT) technology since its inception and pioneered the current pilot projects using EBT via "smart cards" to provide food stamp benefits. Similar initiatives can be identified elsewhere within USDA. For example, peanut subsidy benefits are conveyed to producers via smart cards. Additionally, ASCS has pilot tested automatic teller machines to allow producers to enter information and examine their records. The department has also made significant advances in the adaptation of new technology (Global Positioning Systems and Geographic Information Systems) into its ongoing programs in land and resource management.⁹ These advances should allow more effective program delivery while reducing the number of staff that would otherwise be required to map and monitor farmland and the National Forests.

Finally, there is evidence to suggest that some USDA functions could be performed by non-federal entities. For example, USDA currently contracts with certain states for grain

inspection. Additionally, the State of Connecticut, through its Commissioner of Agriculture, has proposed a pilot project for state management of the new farm service agency when it is implemented.¹⁰

Recommendations

To address the problems and opportunities identified above, the Department of Agriculture needs to decide what functions are critical to its future role and should be retained and which should be eliminated or transferred elsewhere. **USDA should develop immediately a multi-year approach to recasting the Department's structure to meet its new responsibilities and in doing so should not assume that its present programs, with antecedents in the past, are appropriate for either the present or the future.** The overall effort should be undertaken in three phases which build on activities already underway and provide time to identify, pilot and implement additional improvements.

1. In the first phase, the Secretary of Agriculture should develop, for submission with the fiscal 1995 budget to the Congress, a new organizational structure to enhance the delivery of USDA services. This initial effort should lead to a fundamental restructuring of the department's headquarters and field programs and offices. For county-based agencies, the result should consolidate and collocate the appropriate elements of ASCS, SCS and FmHA field offices as well as headquarters offices in creating a farm service agency. During the transition to a single farm service agency, the Secretary will mandate resource sharing at offices that are already co-located and eliminate the 1,200 offices identified by the states as being the least necessary. To minimize adverse economic impact, these offices should be closed as leases expire. No new leases should be negotiated unless they comport with the overall plan for that county. Given the current lease structure, this approach will result in approximately 300-400 office closures per year for three years. In addition to being co-located, the resultant county offices should provide a full range of services (one stop shopping), have common service areas to the extent possible and a common computer support system. In forming these offices to provide common service areas, the department should not be constrained by the current concept of a single county

structure. Rather, the department should identify opportunities for multiple county service areas where savings could accrue without loss of service capacity. The staff in these offices should be cross-trained to a level to enable them to advise prospective recipients of the initial steps and forms to be completed for assistance under any program within that office. Most of the work necessary to implement this recommendation is well underway. Secretary Espy should be recognized and commended for his leadership.

In addition to reorganizing to focus appropriate attention and authority for rural development policy, the Secretary of Agriculture should demonstrate support for the State Rural Development Councils through highly visible gestures such as public signing ceremonies for the eleven Memoranda of Understanding (MOUs) in process. The Councils are a classic example of "empowering" state and local governments and communities.

Finally, the Secretary of Agriculture should initiate a detailed review of all operations and identify those with potential to be managed at other governmental levels or through specially created quasi-governmental agencies or other arrangements. The current contract agreements with certain states for federal grain inspection should serve as a model and the proposal from Connecticut should be explored. The results of that analysis should be made available to OMB by January 1, 1994. Also during this phase, the department should identify a set of activities which might be performed more cost effectively through the use of applied technology such as expanding benefit transactions for farmers using smart cards and other "high tech" alternatives.

2. During the second phase, which should begin in earnest in fiscal 1995, in addition to continuing to close county-based field offices identified in phase one, the effort should review the department's regional, state and area office structure, eliminating those elements no longer appropriate, and extend the analysis to the "non-county based" agencies of the department. For USFS this could mean reducing the number of regional offices to as few as five and restructuring or combining national forests and ranger districts. During this phase, using the analysis gained from the first phase, the department should pilot a limited experiment to determine the feasibility of alternative (non-federal) structures to manage current programs. In addition, the department should invest

some of the savings from the actions above in the acquisition of new technology to replace the manpower-intensive practices of the past. This should include broad-scale implementation of Geographic Information System and Global Positioning System technology to include acquisition of required data and systems for data sharing among the department's various agencies.

3. In the third phase the department should close the remaining county level offices, consolidate the regional and area structures for all agencies, install smart card and other technology applications for those activities where appropriate and prepare the necessary legislation to "de-federalize" departmental functions as appropriate. These actions should be reflected in the fiscal 1996 budget submission.

Implications

The popular media continues to ridicule the department with little or no response. Overall staffing continues to be compared to declining numbers of farmers without taking into account the department's other responsibilities. Setting the context by describing the larger mission of the department and moving immediately on the most egregious field office problems would address a significant portion of the criticism. However, without clear direction from the heads of the department and its agencies guiding those field offices, little, if any, service improvement will result. The National Governors Association is a strong supporter of State Rural Development Councils. Failure to support this activity will be viewed as an indication that the states have no role in the rural agenda and negate any credibility associated with empowering communities. The "cost" to the Secretary of not taking immediate and visible action to articulate a new mission and reorganize for it is quite high.

Fiscal Impact

In its fiscal 1994 budget recommendation to create FSA, the Administration estimates an outlay savings of \$59 million for fiscal 1994 and \$1 billion over five years with a reduction of 6,700 FTE. Closing 127 unnecessary regional, state and area offices for the

non-county-based agencies will yield an additional five year savings of \$338 million with an overall reduction in FTEs of 3,450. Downsizing the Forest Service from the current nine to seven regions will save \$15 million and 260 FTEs in the fifth year. Total savings over five years are over \$1.3 billion in outlays and a net reduction in FTE of 10,400.

FISCAL IMPACT TABLE

Savings in Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$64.3	\$152.4	\$263.2	\$371.5	\$486.7
Outlay	\$61.5	\$148.6	\$258.6	\$366.6	\$481.5
Change in FTE	-2047	-4837	-7391	-9216	-10404

End Notes

1. National Governors' Association, *New Alliances for Rural America, Report of the Task Force on Rural Development*, (Washington, D.C., 1988), p. 54.
2. National Initiative on Rural America, *Rural Development for the 90's*, December 1992. (Descriptive pamphlet.)
3. U.S. Department of Agriculture, *1994 Budget Summary*, p. 28.
4. U.S. Congress, House, HR 1319, The Department of Agriculture Reorganization Act of 1993.
5. U.S. General Accounting Office (GAO), *Farm Agencies' Field Structure Needs Major Overhaul, Report to the Secretary of Agriculture*, GAO/RCED-91-09 (Washington, D.C., 1991).
6. Ibid., p. 27.
7. Ibid., pp. 30-32.
8. U.S. Department of Agriculture (USDA), *Briefing of USDA/OMB Field Structure Review to the National Performance Review*, April 29, 1993. (Briefing book.)

9. U.S. Department of Agriculture, Soil Conservation Service, *Soil and Water Conservation*, July - August, 1992 (Vol. 13, No. 2).

10. Letter from John R. H. Blum, Commissioner, Department of Agriculture, State of Connecticut to Senator Joseph I. Leiberman, June 3, 1993.

USDA SHOULD USE ITS PENALTY/INCENTIVE SYSTEM TO IMPROVE ACCURACY IN THE FOOD STAMP PROGRAM

Background

The U.S. Department of Agriculture's (USDA) Food Stamp Program operates a quality control (QC) system to monitor the degree to which erroneous eligibility and benefit determinations are made by the state agencies operating the program. The QC system was established by regulation in the 1970s as an administrative tool to enable officials to identify problems and needed corrective actions. Subsequent legislation modified the QC system on three different occasions, expanding its use to calculate and impose fiscal liabilities (sanctions) on states that have above average rates of erroneous benefit payments and underpayments and to reward those with very low error rates. States with combined error rates below six percent are rewarded with a higher federal match for administrative expenses--up to 60 percent, as opposed to the standard 50 percent. Additional modifications are included in the current reconciliation bill pending before Congress.

Although the error rate for overpayments declined from 9.9 percent in fiscal year 1981 to 6.96 percent of benefit dollars in fiscal year 1991, it still represented more than \$1 billion a year in erroneously issued benefits.¹ This trend, however, has reversed, with 1992 error rates reaching 8.19 percent. The Federal Government funds 100 percent of benefit payments and 50 percent of the costs states incur administering the program. The states cover the remaining 50 percent of administrative costs. The current system for setting fiscal sanctions and enhanced administrative funding was first applied beginning with fiscal year 1986 operations. States having a total dollar error rate (overpayments and underpayments combined) more than one percentage point above the national average for that year, are financially liable to the degree their error rate is above this "tolerance" level. As of November 1992, 26 states had been assessed fiscal sanctions totaling \$300 million for fiscal years 1986 through 1991. On average, about 11 states each year are sanctioned. The 1992 error rate results in \$258 million worth of sanctions against 15 states.

Many states appeal these penalties, which they view as overly harsh and arbitrary,

through a multi-stage appeals process that takes years in some cases. Massachusetts, for example, is appealing a fiscal year 1982 billing to the Supreme Court. At present, there exists no incentive for a state not to file an appeal of a penalty. States filing appeals are allowed to delay their penalty payments (which can run to millions of dollars) until the appeal is resolved, a process which can take up to 10 years. The lengthy, labor-intensive appeals process (several layers of review and appeal extending through hearings before Administrative Law Judges and appeals to the federal courts) results in delays, which Congress then seeks to address by granting legislative relief. The 1990 amendments forgave virtually all of the pre-1986 sanctions. From October 1980 through September 1991 state liabilities reached \$640 million; USDA collected about \$50 million, or 7.8 percent of this total. USDA has notified states it is willing to waive 65 percent of any sanctions if a state agrees not to contest the remaining amount and either pays it or invests it in improved program operations.

Currently, states concentrate their efforts toward maintaining their level of errors below the national tolerance level (roughly 10 percent). For those states above the six percent error level (the level at which states are offered incentives for their quality performance) and below the 10 percent level for which penalties are instituted, there is little incentive to improve quality. Many states view the six percent level as impossible to attain, and do not focus on improving their quality as long they remain at the seven, eight or nine percent level. Proposed revisions to the QC system in the reconciliation bill passed by the House of Representatives would modify it so that the penalty system is graduated--states which are barely exceeding the tolerance level would not pay as large a percentage penalty as states that are grossly exceeding the tolerance level. The Senate-passed version eliminated all references to the food stamp QC system.

The original intent of the quality control system--to enable officials to identify problems and take needed corrective action--has been lost. Instead, officials now spend needless hours in litigation over error rates and penalties.

Recommendations

1. USDA should restructure the penalty/incentive system to motivate states to improve their quality. The concept of a graduated penalty system included in the reconciliation bill should be extended to states whose quality performance improves. A system based on incentives may have more impact on reducing errors. Those states in the nine to seven percent error range who improve their quality, based on a national standard, could be awarded an incentive payment. The level of the incentive could be computed based on a percentage of the savings the states accrue as a result of their improved quality efforts, and should be structured to reward a downward trend in error rates over a number of years. The payment to those who maintain their quality performance below a six percent error rate should remain the most generous.

Another option for rewarding states who make substantial improvements in their quality involves nonmonetary incentives. The Secretary of Agriculture could recognize a state's performance with a letter to the governor, a national awards ceremony, or a favorable press release. Other options include exempting states from selected program requirements such as certain computer matches.

2. States that decide to appeal their penalty assessment should be required to pay the penalty (or, at a minimum 50 percent of the penalty) prior to filing their appeal. This recommendation would serve to deter states from filing appeals simply as a means of delaying penalty payments. As a corollary to this recommendation, however, USDA should undertake an effort to streamline the appeals process, by paying particular attention to the good cause and Administrative Law Judge aspects of the process.

Implications

The states and the federal government will benefit from a more rational QC process. Neither will focus years of effort on endless litigation, instead of the problems that result in high error rates. States should be more willing to accept a system which they deem less arbitrary and harsh; the federal government should be willing to accept a system with more lenient penalties and more generous incentives if the overall objective of improving the

accuracy of the 100 percent Federally funded benefit program is improved.

Fiscal Impact

A three percent reduction in error rates from the current projected level will yield savings of roughly \$430 million over a five-year period. This excludes the costs of any financial incentives for states to improve performance, and savings from having states pay all or a portion of their liabilities prior to appeal.

FISCAL IMPACT TABLE

Savings In Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$31.9	\$61.5	\$89.1	\$114.2	\$136.6
Outlay	\$31.9	\$61.5	\$89.1	\$114.2	\$136.6
Change in FTEs	0	0	0	0	0

Endnotes

1. U.S. Congressional Research Service, *How the Food Stamp Program Works: 13th Edition* (Washington D.C., November 1992), p. 29.

DELIVER FOOD STAMP BENEFITS VIA ELECTRONIC BENEFITS TRANSFER (EBT) TO IMPROVE SERVICE TO CUSTOMERS, WHILE REMAINING COST EFFECTIVE

Background

The overall issue of electronic benefits transfer (EBT) is addressed in the Information Technology Section (ITS) of the National Performance Review report. This paper is submitted in support of the ITS report, in recognition of the U.S. Department of Agriculture (USDA) Food and Nutrition Service's (FNS) efforts at the forefront of EBT development since the early eighties and because EBT has the potential to improve substantially the delivery of food stamp benefits to recipients.

The Food Stamp Program (FSP) works through the state agencies which issue food coupons to eligible recipients. The recipients use the coupons to purchase food at FNS authorized retail stores. The retail stores deposit the food stamps at banks, which credit the store accounts for their value. The banks send the redeemed food stamps to a Federal Reserve Bank, which credits the bank's account, bills the U.S. Treasury for the value of the food coupons, and destroys them. This involved process (printing and distributing food coupons, oversight and monitoring of state, food outlet, and financial institution operations) is costly (1992 costs were estimated at \$145 million), labor intensive and presents abundant opportunities for abuse. In fiscal year 1990, more than \$500 million in unredeemed coupons, which represent a contingent liability, were written off by the Treasury.

The USDA Inspector General has, in the past, identified several areas associated with the FSP as high risk or material weakness vulnerabilities, such as food stamp coupon illegal trafficking and food stamp coupon deposit and bank reconciliation.

The Electronic Benefit Transfer (EBT) card holds the potential to address these issues and may also improve the nutritional intake of recipients by ensuring that food stamp benefits are used only for their intended purpose. EBT uses technology and commercial infrastructure such as Point-of-Sale (POS) devices, and on-line data transmission networks to serve FSP recipients. EBT is operating statewide in Maryland and in test locations in seven states; another 26 states are in various stages of planning. EBT pilots have received a positive response from recipients, state

agencies, grocers and banks.

The major impediments to nationwide expansion of EBT are the unknown cost/benefit impact to the federal government and who bears the cost--the states, federal government, beneficiaries, merchants, banks or processors. Additional concerns involve Regulation E, a proposed regulation which would make federal/state governments liable for the replacement of recipient benefits associated with an EBT card reported lost or stolen, without regard to recipient responsibilities. The cost of this regulation, coupled with the potential increase in benefit fraud, could represent a major deterrent to expansion of EBT. Another unresolved issue involves the question of who benefits from the enormous "float" on these funds--the federal government, the states, or financial institutions.

Recommendation

USDA, FNS should co-chair an interagency task force jointly with the Department of Treasury to accelerate implementation of Electronic Benefits Transfer (EBT) nationwide. The most convenient and cost effective means for Food Stamp delivery would involve integrating Food Stamp benefits and other entitlement programs such as Aid to Families with Dependent Children into one EBT card. An interagency task force would facilitate this integration.

Implications

EBT as a means of delivering Food Stamp benefits holds the potential to improve service to recipients, improve their nutritional intake, reduce the paperwork burden for retailers and banks and deter certain types of Food Stamp fraud and trafficking.

Fiscal Impact

The fiscal implications of this proposal are incorporated into the overall EBT paper contained in the ITS section of the NPR report.

THE DEPARTMENT OF AGRICULTURE SHOULD IMPLEMENT A QUALITY MANAGEMENT STRATEGY TO IMPROVE CUSTOMER SERVICE

Background

The U.S. Department of Agriculture (USDA) was established in 1862 to conduct agricultural research and to disseminate its findings to farmers. Its role has expanded over the years to include other functions, such as supporting farm income, boosting agricultural production and exports, and providing a safe and sufficient food supply for all Americans.

In carrying out its mandate, USDA serves a variety of different customers, including farmers, food stamp recipients, consumers, foreign governments, trade associations, Congress and other federal, state and local entities. In fact, a single USDA agency may serve many different customers, some with conflicting interests. The result, as noted by the Government Accounting Office (GAO), "...is an organization that does not operate as an integrative unit for the most part and has difficulty adapting to changes in client needs in the most effective and balanced way."¹ USDA employee and trade association surveys affirm the GAO's findings.

Congress has pressed USDA to improve its overall program and personnel management. The House Appropriations Committee report on the 1994 Agriculture, Rural Development, and Food and Drug Administration Appropriations requires the Secretary to develop by February 1, 1994, a plan for objective, quantitative and qualitative performance measurement standards. The bill's mandate corresponds to the Senate's *Government Performance and Results Act of 1993*, which requires each federal agency and department to submit a detailed mission statement with performance goals and objectives by September 30, 1997.

However, past efforts to improve USDA's management practices and culture have been disjointed. In the mid-1980s, the Deputy Secretary focused department wide attention on Total Quality Management (TQM), with mixed results. Some agencies and offices aggressively embraced quality improvement initiatives; others took little or no action.² These disappointing results, and the need for Congressional intervention, indicate that USDA's highest officials must develop and institutionalize a viable quality management strategy.

Recommendations

1. USDA should implement a quality management strategy. The initiative should include a mission statement which clearly identifies the department's diverse customer base and their needs, sets goals with measurable performance standards, and empowers employees to promote teamwork, risk-taking, and creative decision-making. The strategy should also include a mechanism to recognize and reward employees and their contributions.

2. The top level of USDA management must lead by example. Top management must clearly articulate the priority it places on quality management both through funding and personnel decisions and by personal involvement in situations where they can be seen as the primary advocates, teachers and leaders of the quality management effort. Middle management must also visibly support quality improvement efforts.

Implications

Implementing a quality management strategy will change the way the department does business, both internally and externally. It will move USDA from being an organization that thrives on process to one that focuses on results. Productivity will increase and customer service will improve as employees more closely identify with the department's mission.

Fiscal Impact

Although there is no basis for quantifying savings, some will emerge as a result of reduced waste, absenteeism and customer appeals, as well as a shorter turnaround time. However, USDA will not be transformed overnight. Organizations that have successfully renewed themselves through a quality management strategy report that it takes at least five years to realize the full benefits of the changes in operating principles and philosophy. Intermediate benefits may be realized within a fairly short period, however.

The recommended actions would improve the efficiency and effectiveness of USDA and ultimately result in better customer service.

Endnotes

1. U.S. Comptroller General, *U.S. Department of Agriculture, Revitalizing Structure, Systems and Strategies, Report to the Congress*, RCED-91-168, (Washington, D.C., September 1991), p. 3.
2. U.S. Comptroller General, *USDA Total Quality Management, Report to Secretary Espy*, B-249779, (Washington, D.C., March 30, 1993), p. 2.

Now is the Time

END THE WOOL AND MOHAIR SUBSIDY

Background

During World War II and the Korean conflict, the United States imported half the wool required for military uniforms. Determined to reduce dependence on foreign fibers and to insulate American producers from foreign competition, Congress declared wool a strategic material and enacted the National Wool Act in 1954. The Act was designed to increase domestic production of wool by providing direct payments to farmers as a percentage of their market sales. In other words, the more wool farmers produced, the more federal funding they received.

Wool was removed from the Pentagon's strategic materials list in 1960. However, the Act remains in effect today, and wool program subsidies will cost an estimated \$760 million over the 1994-98 period.¹ About half the payments will go to ranchers who raise Angora goats for mohair.² Although mohair never had strategic value, it was included in the 1954 Act as an offshoot of the wool industry. About 80 percent of domestic mohair is now produced for export markets.

In addition to mohair and shorn wool, the program also subsidizes live lambs on the assumption that their pelts will be processed after slaughter. The product is called "pulled wool" and will reap an estimated \$132 million in federal benefits in 1994-98.³ The market for pulled wool, however, is so slight that the U.S. Department of Agriculture (USDA) no longer keeps statistics on it. As a result, federal payments for live lambs tend to subsidize their value as meat, not wool. In fact, for the 1990 marketing year, recipients of wool subsidies earned slightly over 60 percent of their income from meat. Shorn wool sales contribute only around 15 percent, with the rest (25 percent) coming from federal payments.⁴

About half the wool program's beneficiaries receive payments of \$100 or less (the average payment for this group is \$44).⁵ Most of these recipients are hobbyists and do not rely on sheep for their livelihoods. The principal exceptions are several thousand Native American families who tend small flocks, averaging about 20 animals, and for whom payments of even less than \$100 are a significant income contribution.⁶

At the other end of the payment spectrum are the top one percent of producers who captured almost half the wool subsidy. In fact, the top 0.3 percent of producers garnered about a fourth of

the program's funds with payments that averaged \$98,000.⁷ According to New York Congressman Charles Schumer, who in 1990 joined Texas Congressman Richard Armey in a proposal to limit payments to \$50,000 per producer, the wool program is a "subsidy for the wealthy."⁸ Congressman Tim Penny of Minnesota also introduced legislation in 1993 to limit payments to \$50,000. Currently, the combined annual payment limitations for wool and mohair are \$250,000 per "person" (either an individual or corporate entity).

Although the program adds handsomely to large producers' incomes, its appeal has not been strong enough to prevent a dramatic decline in domestic wool production. According to the General Accounting Office, the amount of wool sheared has plummeted from 283 million pounds in 1955 to 89 million in 1988. Furthermore, the staunchest foreign competitors, from Australia and New Zealand, benefit from our high levels of governmental subsidies. They compete with lower prices, and succeed, on the open market.⁹

The wool program has outlived its usefulness, and its continued implementation only exacerbates inequities in levels of public support between wealthy and marginal producers. In addition, it has failed to stimulate domestic production and acts as a lightning rod for public criticism of government spending.

Recommendation

Congress should eliminate federal support payments for wool and mohair. The program has failed to spur domestic production of wool but continues to disproportionately benefit the few largest producers. Furthermore, wool is no longer a strategic material as it was considered when the program was implemented. This recommendation will require legislative action.

Implications

Eliminating wool and mohair subsidies may have the happy consequence of restoring some public confidence in the government's ability to eliminate outdated, ineffective programs. However, the wool program enjoys powerful Congressional support. Recipients are located in all 50 states and many are small beneficiaries with strong emotional appeal, including Native Americans.

Fiscal Impact

Eliminating the program would save an estimated \$760 million in budget outlays during the 1995-98 period.

FISCAL IMPACT TABLE

Savings In Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$ 0	\$ 0	\$ 190	\$ 190	\$ 190
Outlays	\$ 0	\$ 190	\$ 190	\$ 190	\$ 190
Changes in FTEs	0	0	0	0	0

Endnotes

1. Congressional Budget Office, *Reducing the Deficit*, (Washington, D.C., February 1993), p. 252.
2. Stephen Green, "The Wool Gathering Subsidies," *Washington Times* (April 4, 1990), p. F3.
3. *Reducing the Deficit*, p. 252.
4. Agriculture Branch, Office of Management and Budget, Washington, D.C., June 2, 1993.
5. Green, p. F3.
6. Jonathan Rauch, "*The Golden Fleece*," *National Journal* (May 18, 1991), p. 1169.
7. Ibid.
8. Ibid., p. 1170.
9. Ibid., p. 1169.

RESTRICT USDA CROP DEFICIENCY PAYMENTS

Background

Farmers participating in federal commodity programs for wheat, cotton, rice, corn and other feed grains receive subsidies (deficiency payments) when the market price for their crop falls below a legislatively established target price. The amount of subsidy depends on acreage, yield, and the disparity in prices. Since payments are tied to production, large producers with high net incomes generally receive bigger payments than do small producers. In 1991, for example, nine percent of participants received payments of more than \$25,000, accounting for 44 percent of total program outlays. In contrast, 53 percent of participants received payments of less than \$5,000, or only 12 percent of the total.¹

Payments are limited to \$50,000 per "person." However, individual producers may qualify for payments as three distinct "persons," or legal payment entities. Consequently, the actual payment limit for program participants is \$100,000: up to \$50,000 as an individual, and up to \$25,000 each as two additional "persons." Since several individuals may be involved in a single farming operation, total payments to the farm actually may be well above \$100,000.² Furthermore, these limits do not include payments for participation in any other farm support programs.

About a third of all farmers participate in commodity programs, and deficiency payments are expected to exceed \$9 billion in fiscal 1993, or 30 percent of cash market receipts from grain and cotton crops.³ Since the payments are an entitlement--that is, spending is determined by rules that define eligibility and govern benefit amounts rather than by the annual appropriations process--total outlays may be larger or smaller depending on levels of participation and market conditions.

The procedures governing deficiency payments are time consuming and complicated. The Office of Management and Budget (OMB) estimates over 170,000 full time equivalent workdays were spent by county office staff administering payment limitations last year.⁴ At the same time, fraud and abuse are endemic. A 1990 Inspector General's investigation of 23 multi-entity farming operations concluded that 143 of the 205 payment entities were merely shell corporations

used to qualify additional "persons" for payment. Without the 143 shells, the farms would have received 70 percent less in deficiency payments than they actually were accorded.⁵

Many policymakers agree that deficiency payments are costly, regressive and prone to abuse. Their original purpose was to stabilize farm incomes. However, unlike 60 years ago when income support programs were initially designed, the average farmer today has similar household income and much higher net worth compared with the general population.⁶ Furthermore, on average more than 85 percent of farm household income is earned off-the farm.⁷

But despite broad agreement that deficiency payments pose significant administrative and policy challenges, there is little consensus on how to fundamentally restructure them without triggering an avalanche of unintended consequences. Payments affect the incomes of individuals, the capitalized value of farmland, the economic base of rural communities, and the cost of livestock and poultry production, as well as consumer food prices and international trade. And because the program is voluntary, its effects vary with changing participation rates.⁸

During the 1990 farm bill debates, congressional representatives and officials of the United States Department of Agriculture, OMB and the Congressional Budget Office discussed limiting payments based on farm size and adjusted gross income. The Bush budget proposals for 1992 and 1993 recommended limiting payments based on the level of off-farm income; and the Clinton administration has proposed eliminating payments to farmers with off-farm incomes of more than \$100,000.⁹

These strategies recognize that income stabilization programs based on production inevitably favor large over small producers. However, efforts at reform must strike a balance between taxpayer equity--that is, directing support where it is most needed--and continued good order in the agricultural sector. Deficiency payments not only stabilize income, they also are intended to protect against the twin risks of excessive supplies and possible shortages. Furthermore, eligibility for deficiency payments requires participation in farm conservation programs, principally restrictions from planting on highly erodible lands and wetlands. Disqualifying the largest producers from eligibility may prove environmentally damaging if previously restricted acreage is brought into production to compensate for lost income without sufficient conservation controls.

Under the circumstances, the most effective reform will also be the least disruptive. In 1990, the General Accounting Office (GAO) recommended enforcing the \$50,000 payment limit while at the same time encouraging greater market responsiveness and less reliance on federal aid by producers.¹⁰ The GAO's advice would allow for a number of administrative and legislative actions to curb the abuses of the current system, at significant savings, while preserving its effectiveness.

Recommendations

1. USDA should endorse current legislative proposals to limit deficiency payments to \$50,000 per year, attributed directly to individuals. Under proposed legislation H.R. 2072, payments would be attributed directly to natural persons rather than corporations or partnerships. The limit any individual could receive would be reduced from \$100,000 to \$50,000--saving money, reducing incentives for fraud and abuse, and simplifying administrative procedures. Only the wealthiest producers would be affected. The Secretary should actively support this provision of H.R. 2072.

2. Amend the above noted legislative proposal to permit reduction in payments on a dollar-for-dollar basis for recipients with gross annual incomes from non-farm sources over \$100,000. The administration has proposed eliminating from eligibility producers with off-farm incomes of \$100,000 or more. This recommendation endorses the intent of the administration's proposal but eschews an arbitrarily fixed cut-off point as inherently unfair and subject to manipulation as producers neared the cut-off limit. Only about 7,000 producers eligible for deficiency payments earn off-farm incomes of at least \$100,000.¹¹ This group accounted for a little over two percent of all deficit payments disbursed and about five percent of total agricultural production in 1991. Phasing these producers out of the program is not likely to have a major impact on either spending or agricultural stability, but will establish the principle of a "means" test for sense for federal largess.

Implications

Directly attributing deficiency payments to individuals and progressively limiting eligibility

would reduce the incentives for fraud and would redirect income support toward the neediest producers. Enforceable limits on deficiency payments also may have the effect of lowering the price of farm land, since some of its value is tied to base acreage associated with subsidized crops. Cheaper land may assist new and small producers remain in farming, but may also have negative consequences for some farm-based communities..

Fiscal Impact

Projected savings from limiting deficiency payments to \$50,000 per individual would be about \$670 million during 1994-98.

FISCAL IMPACT TABLE

Savings in Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$ 70	\$ 140	\$ 150	\$ 160	\$ 150
Outlays	\$ 70	\$ 140	\$ 150	\$ 160	\$ 150
Change in FTEs	0	0	0	0	0

NOTE: Savings in salaries and expenses assumed absorbed in other agency workload responsibilities. There is also no hard data available for savings accrued by phasing payments from producers with off-farm incomes in excess of \$100,000 per year.

Endnotes

1. Economic Research Service, *Agricultural Outlook*, (Washington, D.C., April 1993), p. 25.

2. Economic Research Service, Agriculture Information Bulletin 664-37, *The Distribution of Direct Government Payments*, (Washington, D.C., May 1993).
3. Economic Research Service, Agriculture Information Bulletin 664-42, *Commodity Program Entitlement: Deficiency Payments*, (Washington, D.C., May 1993).
4. Interview with Office of Management and Budget, Agriculture Branch, June 2, 1993.
5. Office of the Inspector General, International Affairs, Commodity Programs, and Science and Education Division, Report on Agricultural Stabilization and Conservation Service, May 1993, p. 11.
6. *Agricultural Outlook*, April 1993, p. 25.
7. Ibid., p. 26.
8. Agriculture Information Bulletin 664-37, *The Distribution of Direct Government Payments*, (Washington, D.C., May 1993).
9. *Agricultural Outlook*, April 1993, p. 25.
10. Government Accounting Office, *1990 Farm Bill, Opportunities for Change*, (Washington, D.C., April 1990), p. 15.
11. *Agricultural Outlook*, April 1993, p. 27.

ELIMINATE FEDERAL SUPPORT FOR HONEY

Background

The federal government has supported honey production since 1950. The program was enacted after honey prices dropped following World War II because of reduced demand and excess inventories. During the war, the government declared beekeeping war-essential and encouraged heavy production.¹ Beeswax was used in place of petroleum to waterproof ammunition and other equipment, and honey replaced tightly rationed sugar as a principal sweetener.

When demand decreased after the war, beekeepers and honey packers found it difficult to cover costs and the number of honeybee colonies began to decline.² Congress reacted by introducing price supports for honey in the Agricultural Act of 1949. The basic purpose of the legislation was to ensure that enough honeybees would be available for crop pollination. However, since receipts from honey and beeswax far exceeded revenue from pollination, Congress subsidized honey production at prices which would allow beekeepers to maintain viable operations. The program was to be in effect only until beekeepers could receive adequate pay for pollination services.³

The honey program allows beekeepers to obtain a federal loan using the honey they produce as collateral. The loan price is determined by the Secretary of Agriculture using a legislatively established formula. Borrowers can repay the loan and redeem their collateral at either the market price or the loan rate, whichever is lower. They also may default on the loan and forfeit the honey used as collateral. According to the Congressional Budget Office, the loan repayment rate for 1992 was 47 cents per pound. However, the federal loan rate was 53.8 cents per pound, which means that borrowers were subsidized by an average of about 6.8 cents per pound.

There are about 212,000 beekeepers in the United States, all of whom are eligible to participate in the program.⁴ The U.S. Department of Agriculture (USDA) describes 200,000 of them as hobbyists, and another 10,000 as "sideliners," or part-time beekeepers. Commercial producers, those owning 300 or more colonies, number about 2,000 and produce about 60 percent of the honey extracted annually in the U.S.

Only about 3,000-5,000 beekeepers participate in the USDA program, with just over three million colonies of bees. As with other agricultural commodity programs which base benefits on production, the largest beekeeping operations tend to receive the most federal support. About 10 percent of program participants receive over 50 percent of payments. Sideliners and hobbyists make little use of the program.

Critics of the honey program, including the General Accounting Office (GAO), claim price supports are no longer necessary to provide crop pollination services. According to GAO, producers of seed and fruit crops to which bee pollination is critical either pay beekeepers to place bee colonies near their crops or operate their own beekeeping enterprises. Unofficial estimates of beekeepers who do not participate in the honey program, but instead use their bees exclusively for pollination services (the original intent of the program), rival the number within the program. Crop producers indicate they believe honeybee pollination would still be cost-effective even if the service price rose as a result of eliminating honey price supports.⁵

Critics also point out that commercial beekeepers who benefit most from the program emphasize honey production instead of pollination services. Since the program began, honey production has increased significantly in those states, such as North and South Dakota, where crops with abundant flowers are grown. These crops produce large amounts of nectar needed for honey production; however, they do not require pollination. At the same time, states in which honey production has declined, such as New York and Michigan, are significant producers of apples, cherries, and other fruits that need honeybee pollinators.⁶

Recommendation

USDA should prepare legislative language to eliminate federal support for honey. The original intent of the program has been abandoned. Instead, a small number of commercial honey producers benefit from an unnecessary government subsidy for their product.

Implications

According to USDA, if the honey price support program is terminated, there will be a decline in the number of honeybee colonies available to provide pollination services, at higher

cost, to fruit and vegetable producers. Production of these crops is generally concentrated in a few geographic areas, such as Florida and California, and USDA believes it is unlikely these areas contain a sufficient number of wild bees or honeybees managed by local beekeepers to provide adequate pollination.⁷ However, there does not seem to be a clear connection between federal subsidies for beekeepers and effective pollination services. Commercial beekeeping is already heavily concentrated on honey production and there are about as many beekeepers performing pollination activities outside the program as there are program participants (about three million colonies each). Eliminating the honey program is unlikely to radically alter either trend.

Fiscal Impact

The Congressional Budget Office estimates that eliminating the program will save about \$30 million over the 1994-1998 period.

FISCAL IMPACT TABLE
Savings in Millions of Dollars

	1994	1995	1996	1997	1998
Budget Authority	\$ 0	\$ 15	\$ 5	\$ 5	\$ 5
Outlays	\$ 0	\$ 15	\$ 5	\$ 5	\$ 5
Change in FTEs	0	0	0	0	0

Endnotes

1. Economic Research Service (ERS), *Background for 1990 Farm Legislation, Honey*, (Washington, D.C., September 1989), p. 2.
2. General Accounting Office (GAO), *Report to the Congress, Federal Price Support for Honey Should be Phased Out*, (Washington, D. C., August 1985), p. 6.
3. Ibid., pp. 6,7.

4. ERS, *Background*, p. 3.

5. GAO, *Report*, p. ii.

6. *Ibid.*, p. 15.

7. ERS, *Background*, p. 35.

MAKE USDA'S TOBACCO PROGRAM COST FREE TO THE TAXPAYER

Background

The federal government subsidizes tobacco production through a price support program administered by the U.S. Department of Agriculture (USDA). Since passage of the *No Net-Cost Tobacco Program Act* in 1982, the subsidy supposedly has been cost-free to the American taxpayer. In fact, though, the no net-cost provision of the Act does not include the program's \$20 million annual administrative expenses.¹

USDA controls most of the tobacco grown in the U.S. through a combination of price supports, marketing quotas and/or acreage allotments. Tobacco grower cooperatives buy all U.S.-grown tobacco in auctions at the price supported level if other buyers are not found. Their purchases serve as collateral for USDA Commodity Credit Corporation (CCC) loans, which the cooperatives use to pay the growers and cover processing, storage, and marketing costs.

There are about 125,000-150,000 tobacco growers in the U.S., clustered principally in Virginia, North and South Carolina, Georgia, Tennessee, Kentucky and all the states bordering Kentucky. Most are small producers, working between three and 20 acres. A referendum of producers is held every three years to decide whether to continue USDA's program. Support is usually overwhelming, in part because even those who do not grow tobacco can rent or lease their quotas to others.

Beginning with the 1982 crop, all principal, interest, and other costs must, by law, be covered by proceeds from CCC sales of tobacco pledged as collateral for loans, with any outstanding costs made up by assessments from growers and purchasers. Administrative expenses, which amount to about \$20 million per year, are excluded from the law's no net-cost provision. Those expenses include an estimated 75,000 annual staff workdays in county offices, as well as at least 11 analysts and other staff in Washington, D.C.²

Although administrative expenses are exempt from the no net-cost formula, tobacco producers are also subject to a non-refundable marketing assessment at a rate established by Congress. In 1992, the assessment was 0.5 percent of the national price support level, or 0.78 cents per pound. Estimated receipts from the assessment equalled \$24.6 million, or about \$4 million more than the program's administrative costs. The assessment is essentially a deficit reduction tool and does not

fund program administration. According to USDA, however, the rate established for the marketing assessment virtually assures that the tobacco program is fully self-supporting in terms of total expenditures and revenues.

Recommendations

1. USDA should submit legislative language to Congress to acknowledge that the marketing assessment offsets administrative costs. There is a perception among some critics of the tobacco program that there are hidden administrative costs which contradict the no net-cost provision of the 1982 *Act*. Making explicit the purpose of the marketing assessment to include administrative costs will mute that criticism.

2. USDA's Agricultural Stabilization and Conservation Service (ASCS), which administers the tobacco program, should study the feasibility of privatizing the program within its existing structure by allowing producers to set their own national quota and enforce compliance. Privatization would continue the path of the "no net-cost " act by reducing USDA expenditures and involvement in the program. ASCS should initiate its study on the basis of marketing orders and in conjunction with the 1995 budget.

Implications

Making explicit the fact that marketing assessments more than compensate for administrative expenses should answer charges that the no net-cost program includes hidden expenses. Privatizing the program will not produce any significant changes in the industry or its international competitiveness. It would simply remove federal support from a product which poses a severe international health hazard and contradicts most efforts at health care reform.

Fiscal Impact

These recommendations are revenue neutral.

Endnotes

1. Matthew Dubel, *Tobacco on the Dole: How Taxpayers Subsidize Tobacco and What can be Done About It* (Washington, D.C., January 1993), p. 1.

2. Office of Management and Budget, *Tobacco Program*, Washington, D.C., January 1993, p. 5.

Section III

U.S. Department of Agriculture Reinvention Activities

SUMMARY OF USDA REINVENTION EFFORTS

Background

Since President Clinton's March 3, 1993, announcement to reinvent the government, much has happened at the United States Department of Agriculture. On the same day, Secretary Espy and David Osborne, author of "Reinventing Government," shared their enthusiasm for change with employees in USDA's personnel offices. In another event in early April, Vice President Gore and Secretary Espy talked with employees at a USDA town meeting.

Secretary Espy reaffirmed his commitment by launching the USDA National Performance Review Team (NPRT) to lead the department's issue development and problem diagnosis process for reinventing Government. As part of his announcement, he empowered the NPRT to examine and recommend on how USDA could do business better for less and encouraged staff to focus on results rather than output, meeting customer needs, and simplifying procedures and processes.

The NPRT is made up of over 25 USDA employees with diverse backgrounds and experience who are employed in various USDA agencies and includes two representatives from the Secretary's immediate staff. The NPRT acted quickly to identify key issues to meet the challenge of change and commitment to customer service and satisfaction. "Issue teams" were formed to develop strategies for pursuing individual issues. The team believes that government employees encounter rules, regulations, and policies that block or impede creativity, innovation, productivity, and empowerment and that the existing culture and human resource management practices of some federal agencies adversely affect individual and agency performance. Consequently, government service delivery systems are not always customer driven. Additionally, government agencies do not use state-of-the art, compatible automation, communication, and information technologies and the Federal Government does not adequately consider the potential of cross-servicing, consolidation, elimination, or privatization of agencies or functions. Budget and fiscal processes discourage efficient utilization of financial resources.

From its inception, the NPRT used participatory processes to generate dialogue, leadership and direction. The issue teams were self-generating and composed of volunteers with a significant interest or expertise in a particular issue. The team explored these issues by

conducting a dialogue with employees during open forums attended by over 1500 USDA employees and discussions with employees during several focus group meetings ranging from functional specialty groups to agency heads. Additionally, the team analyzed over 8,000 responses to a nationwide employee questionnaire designed to solicit comments and suggestions for improvement and responses to a survey of trade and consumer groups. USDA functional leaders provided briefings to the team, and the Deputy Secretary hosted agency mission briefings for sub-cabinet officials. The team collected data from existing internal and external reports and reviews, success stories from agency heads, seminars and conferences, and interviews with district, regional, and headquarters employees regarding the process, success, and difficulty in implementing total quality management and teamwork. Team members participated in a summit on "Reinventing Government" convened by Vice President Gore to learn from cutting-edge businesses that empower employees and use the latest technologies, state and local governments that have successfully applied total quality management principles, and experts in organization and management who know how to make "reinvention" work. Finally, team members held discussions with other federal agencies and private sector consultants such as the World Bank, foreign embassies, international organizations, and land grant universities. The NPRT discussed these issues with all levels of employees, sub-cabinet officials, the Secretary and outside organizations and developed findings and recommendations.

The Secretary personally worked with the team. The top management support and the NPRT's participatory process could be used as a model for the desired changes being recommended for USDA. The NPRT representatives participated in the Secretary's staff meetings and a recent retreat. The Secretary is frequently briefed on the team's activities and recommendations and personally invited the team to major speech presentations. His support for the role and accomplishments of the NPRT have been clearly presented in his conferences, speeches and staff meetings. The Deputy Secretary and Under and Assistant Secretaries have displayed their support through active participation with issue subgroups and individuals. Their subject matter insight and ideas have been invaluable.

Specific Reinvention Projects

USDA agencies are excited about the potential of using Reinvention Labs to promote change and have proposed more than 15 specific labs. Implementation strategies for the labs are being developed using the team approach. These labs are focused on improving customer service and include the INFO SHARE Project which will improve service delivery through re-engineering the farm service and rural development agencies' business processes, and integrating their computer information systems. This is a partnership between USDA customers and a team of USDA agencies. Additionally, the Forest Service proposes to implement changes agencywide in their organizational culture by eliminating administrative barriers and delegating more authorities to the operational level. They have conducted several "pilot efforts" since 1986, including successful efforts in the Northeastern Region, the Intermountain Region, the Northeastern Forest Experiment Station, the Rocky Mountain Forest and Range Experiment Station, the Pacific Southwest Experiment Station and the Ochoco National Forest.

The Extension Service plans to improve information and educational technology by aligning their organizational culture and structure with available technology. They will test interactive information and distance education linkages with citizens through Interactive Citizen Participation Centers. Their efforts will include developing the knowledge and skills to assist USDA employees to function in a new 21st century organization outfitted as high performance teams, with redesigned work, and unbridled information.

The Animal and Plant Health Inspection Service (APHIS) will streamline the rulemaking process for selected minor, routine, and non-controversial rules. Benefits include reduced delays in rulemaking, reduced staff resources needed, improved quality of regulatory management, and greater responsiveness to USDA and industry customers. A second APHIS lab involves collection of fees for services such as veterinary diagnostics and animal import/export. This lab would improve their user fee collection system by accepting electronic transfers (e.g., credit cards and wire service money) for improved customer convenience and efficiency. Finally, APHIS proposes a third lab to make the Plant Protection and Quarantine/Southeast Regional Office operations more mission-driven and decentralized by delegating authority and responsibility to state and work unit level managers and by formalizing collaborative teams with states and industry.

Lessons Learned

USDA has learned through its many interactions with employees that existing rules and regulations do not constitute the most significant barriers to reinventing government. It is the strict interpretation and unfair and inappropriate application of rules and regulations that stifle good individual and team performance. USDA has a deeply ingrained culture that does not trust employees, does not empower them and does not allow them to reach their full potential.

USDA has also learned that traditional hierarchial systems do not always accomplish the objective. For example, attempts to obtain input from employees through the use of a questionnaire were of limited success because the normal chain of command communication systems failed to deliver the information to them.

USDA employees were enthusiastic about having the opportunity to participate in "Reinventing Government" through the public forums and the questionnaire. It is this type of input from employees that has allowed the NPRT to focus on the real problems. They expect feedback on the ideas and suggestions but remain skeptical that any changes will take place.

Conclusion

The Secretary, through "TEAM USDA," is using the information gathered by the NPRT to create a vision for reinventing USDA. This vision will require substantial structural and organizational culture changes. The Secretary and subcabinet members of the USDA team will lead implementing actions necessary for lasting change. The transition will be managed by each subcabinet team member assisted by a team that will provide strategic planning support, assist in formulating policy, provide implementation guidance and monitoring and evaluate the implementation. The Secretary will hold sub-cabinet team members and career officials accountable for implementation results as a key component of the USDA strategy. These actions will enable USDA employees to improve service to customers at reduced costs.

USDA is fostering change by reaching out to all USDA employees through the public forums, surveys, focus group meetings and other efforts. The Reinvention Labs are the beginning of creating an environment where we establish a clear sense of mission, delegate authority and responsibility, replace regulations with incentives, develop budgets based on

outcomes, and measure our success by customer satisfaction.

Secretary Espy's commitment to fostering change has been demonstrated through his support of the team's efforts, his comments during speeches made to all employees and by his support of the Reinvention Labs. Implementing change that will last at USDA is the challenge before us. It will require a change in the very culture of the organization. Strategic plans are being developed to institutionalize methods for implementing change in USDA and for assuring a continuous effort to strive for improvement.

Section IV

U.S. Department of Agriculture Fiscal Implication Summary

U.S. DEPARTMENT OF AGRICULTURE FISCAL IMPLICATIONS SUMMARY

		CHANGE IN BUDGET AUTHORITY Dollars in Millions						
Ch.		Fiscal Year						Change
Ref.	Issues	1994	1995	1996	1997	1998	5-YRS	in FTEs
USDA 1	Implement a Consolidated Farm Management Plan	0	0	0	0	0	0	0
USDA 2	Administer the Employment and Training Requirement for Food Stamp Recipients More Effectively and Efficiently Through Other Job Training Programs	163.7	165.9	168.2	170.5	172.9	841.2	-100
USDA 3	The Forest Service Should Reinvent its Sales and Revenue-Sharing Programs to Increase Revenue, Prevent Fraud, and Provide Better Customer Service ¹	67.6	80.6	104.6	107.6	107.6	468	-7100
USDA 4	Reduce Funding and Limit Eligibility for U.S. Department of Agriculture Export Promotion Programs	49.2	49.2	49.2	49.2	49.2	246	0
USDA 5	USDA Should Encourage and Facilitate Multi-State Contracts for Infant Food and Formula Cost Containment in the WIC Program	0	50	110	115	120	395	0
USDA 6	User-Fee Financed Programs Should be Exempt From Administrative Budgetary and Fiscal Constraints	0	0	0	0	0	0	0
USDA 7	Reorganize the Department of Agriculture to Better Accomplish its Mission and Streamline its Field Structure to Improve Service to its Customers	64.3	152.4	263.2	371.5	486.7	1338.1	-10404
USDA 8	USDA Should Use its Penalty/Incentive System to Improve Accuracy in the Food Stamp Program	31.9	61.5	89.1	114.2	136.6	433.3	0
USDA 9	Deliver Food Stamp Benefits via Electronic Benefits Transfer (EBT) to Improve Service to Customers, While Remaining Cost Effective	0	0	0	0	0	0	0
USDA 10	The Department of Agriculture Should Implement a Quality Management Strategy to Improve Customer Service	0	0	0	0	0	0	0
USDA 11	End Wool and Mohair Subsidy	0	0	190	190	190	570	0
USDA 12	Restrict Crop Deficiency Payments	70	140	150	160	150	670	0
USDA 13	Eliminate Federal Support for Honey	0	15	5	5	5	30	0
USDA 14	Make the U.S. Department of Agriculture's Tobacco Program Cost Free to the Taxpayer	0	0	0	0	0	0	0
Total, Department of Agriculture		446.7	714.6	1129.3	1283	1418	4991.6	-17604

¹Includes \$108 million of additional revenue over the five-year period.

		CHANGE IN OUTLAYS Dollars in Millions						
Ch.		Fiscal Year						Change
Ref.	Issues	1994	1995	1996	1997	1998	5-YRS	in FTEs
USDA 1	Implement a Consolidated Farm Management Plan	0	0	0	0	0	0	0
USDA 2	Administer the Employment and Training Requirement for Food Stamp Recipients More Effectively and Efficiently Through Other Job Training Programs	163.7	165.9	168.2	170.5	172.9	841.2	-100
USDA 3	The Forest Service Should Reinvent its Sales and Revenue-Sharing Programs to Increase Revenue, Prevent Fraud, and Provide Better Customer Service ²	67.6	80.6	104.6	107.6	107.6	468	-7100
USDA 4	Reduce Funding and Limit Eligibility for U.S. Department of Agriculture Export Promotion Programs	49.2	49.2	49.2	49.2	49.2	246	0
USDA 5	USDA Should Encourage and Facilitate Multi-State Contracts for Infant Food and Formula Cost Containment in the WIC Program	0	50	110	115	120	395	0
USDA 6	User-Fee Financed Programs Should be Exempt From Administrative Budgetary and Fiscal Constraints	0	0	0	0	0	0	0
USDA 7	Reorganize the Department of Agriculture to Better Accomplish its Mission and Streamline its Field Structure to Improve Service to its Customers	61.5	148.6	258.6	366.6	481.5	1316.8	-10404
USDA 8	USDA Should Use its Penalty/Incentive System to Improve Accuracy in the Food Stamp Program	31.9	61.5	89.1	114.2	136.6	433.3	0
USDA 9	Deliver Food Stamp Benefits via Electronic Benefits Transfer (EBT) to Improve Service to Customers, While Remaining Cost Effective	0	0	0	0	0	0	0
USDA 10	The Department of Agriculture Should Implement a Quality Management Strategy to Improve Customer Service	0	0	0	0	0	0	0
USDA 11	End Wool and Mohair Subsidy	0	190	190	190	190	760	0
USDA 12	Restrict Crop Deficiency Payments	70	140	150	160	150	670	0
USDA 13	Eliminate Federal Support for Honey	0	15	5	5	5	30	0
USDA 14	Make the U.S. Department of Agriculture's Tobacco Program Cost Free to the Taxpayer	0	0	0	0	0	0	0
Total, Department of Agriculture		443.9	900.8	1124.7	1278.1	1412.8	5160.3	-17604

²Includes \$108 million in additional revenue over the five-year period.

DRAFT-INTERNAL WORKING DOCUMENT

NATIONAL PERFORMANCE REVIEW
AGENCY TEAMS
ISSUE DECISION PACKAGE

TEAM: USDA

Date: August 3, 1993

Issue No.	Issue Title	5-Year Impact	NPR Team Position	Agency Position	Action from Tollgate 4 Meeting
USDA1	Consolidated Farm Management Plan	None	-Task OEP with clarifying federal roles in water quality and wetlands issues. -Implement consolidated farm management plan through HRI440 or Executive Order.	No comments.	
USDA2	Administer Employment and Training Requirement for Food Stamp Recipients Through Other Job Training Programs	Save \$841.2 M & 100 FTEs over 5 years	-Amend the Food Security Act to eliminate food stamp employment & training program. -Redirect food stamp recipients to JTPA or JOBS programs.	USDA supports this recommendation as long as they are offered the option of consolidating with either JTPA or JOBS.	
USDA3	Forest Service Should Reinvent its Sales and Revenue-sharing Programs	Save \$360 M & 7100 FTEs, and raise \$168 M over 5 years	-Reinvent timber sales process. -Phase out below-cost timber sales. -Discontinue community revenue-sharing program & replace with new PILT program. -Amend Knutsen-Vandenberg Act.	Agency has latitude, therefore there is no need to seek legislation to discontinue community revenue-sharing (comments incorporated into paper).	
USDA4	Restructure Export Promotion Program	Save \$249 M & 50 FTEs over 5 years	-Reduce FY 94 funding request by \$47M. -Develop and implement graduation requirements for participants. -Continue ban on supporting tobacco sales. -ERS to make annual evaluation on MPP.	USDA is working with Congress on this issue. USDA believes significant progress will be made by September, but is concerned that funding reductions combined with program redirection will not produce savings.	

USDA5	Facilitate Multi-state Contracts for Infant Food and Formula Cost Containment in WIC	Save \$395 M over 5 years	-Continue and expand breast-feeding education. -Lead cost containment effort, and include additional items in WIC food packages. -Expand role in disseminating "best practice" information to states.	USDA has undertaken a major initiative to promote breast feeding, and supports additional cost containment efforts as long as they do not have to initiate a national contract.
USDA6	User Fee-Financed Programs Should be Exempt From Administrative & Budgetary Constraints	Revenue neutral		USDA initiated proposal to exempt self-supported, user-fee funded programs from administrative, budgetary, and fiscal constraints imposed through General Fund appropriations.
USDA7	Reorganize USDA to Streamline Field Structure	Save \$1.3 B & 10400 FTEs over 5 years	-In first phase, develop new organizational structure for and close 1200 county offices. -In second phase, review regional, state, and area office structure, and eliminate those elements that are no longer appropriate. -In third phase, complete consolidation, install smart cards & other technology applications, and prepare legislation to de-federalize departmental functions as appropriate.	USDA in agreement with recommendations but disagrees with cost/savings estimates, and does not agree with language describing proposed Farm Service Agency as including the Soil Conservation Service.
USDA8	Use Penalty/Incentive System to Improve Accuracy in Food Stamp Program	Save \$430 M over 5 years	-Restructure penalty/incentive system to motivate states to improve quality. -States appealing penalty assessment should be required to pay the penalty prior to filing their appeal.	USDA in agreement with recommendation.
USDA9	Deliver Food Stamp Benefits via Electronic Benefit Transfer	Incorporated into overall EBT paper	USDA, Treasury & FNS should co-chair interagency task force to accelerate implementation of EBT.	USDA in agreement with basic recommendation, but concerned that implementation costs have not been addressed in this paper.
USDA10	Implement Quality Management Strategy to Improve Customer Service	Revenue neutral	NPR in agreement with this recommendation.	USDA initiated proposal to: -Implement a quality management strategy. -Top level of USDA must lead by example.

USDA11	End the Wool & Mohair Subsidy	Save \$915 M over 5 years	-Eliminate federal support payments for wool and mohair, or -Amend its administration of program to exclude payments on live lambs. -If cannot eliminate wool program, support legislation to limit payments to \$50,000 per person on direct attribution basis.	USDA supports this recommendation.
USDA12	Restrict Crop Deficiency Payments	Save \$670 M over 5 years	-Endorse current legislation to limit deficiency payments to \$50,000 per year, attributed directly to individuals. -Amend above legislation to permit reduction in payments on a dollar for dollar basis for recipients with gross annual incomes from non-farm sources over \$100,000.	USDA has no comments.
USDA13	Eliminate Federal Support for Honey	Save \$60 M over 5 years	Prepare legislative language to eliminate federal support for honey.	
USDA14	Make Tobacco Program Cost Free to Taxpayers	Revenue neutral	-Submit legislative language to acknowledge that marketing assessment <u>offsets</u> administrative costs. -ASCS should study feasibility of privatizing the program by allowing producers to set their national quota and enforce compliance. -Don't mess with tobacco program.	