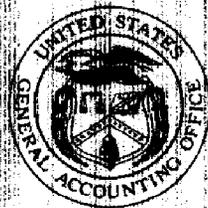


February 1995

**FOREIGN  
ASSISTANCE**

**Selected Donors'  
Approaches for  
Managing AID  
Programs**



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

**National Security and  
International Affairs Division**

B-259004

February 23, 1995

The Honorable Jesse A. Helms, Chairman  
The Honorable Claiborne Pell  
Ranking Minority Member  
Committee on Foreign Relations  
United States Senate

The Honorable Mitch McConnell, Chairman  
The Honorable Patrick J. Leahy  
Ranking Minority Member  
Subcommittee on Foreign Operations  
Committee on Appropriations  
United States Senate

The Honorable Benjamin A. Gilman, Chairman  
The Honorable Lee H. Hamilton  
Ranking Minority Member  
Committee on International Relations  
House of Representatives

The Honorable Sonny Callahan, Chairman  
The Honorable Charles Wilson  
Ranking Minority Member  
Subcommittee on Foreign Operations,  
Export Financing and Related Programs  
Committee on Appropriations  
House of Representatives

The Congress and the executive branch have been deliberating how to reform the U.S. foreign assistance program in light of the rapidly changing global environment and recurring management problems. The purpose of this report is to provide U.S. decisionmakers information about how six other bilateral donors (Canada, Germany, Japan, Sweden, the Netherlands, and the United Kingdom) and the European Union, a multilateral donor, manage their foreign aid programs. Specifically, the report deals with the issues of (1) the difficulty of planning in an uncertain environment, (2) common structural dilemmas in foreign aid programs, and (3) common management weaknesses.

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## Background

The Congress and the executive branch have indicated that the U.S. Agency for International Development (USAID), the primary agency for providing foreign economic assistance, and its program need to be reformed. They agreed that the objectives of the United States were outdated and that the management of the program had been inadequate (e.g., the lack of central direction, inadequate management controls, and poor personnel practices). As part of this reform effort, in 1994, the President sent to the Congress a legislative proposal entitled "Peace, Prosperity, and Democracy Act," which would have repealed most of the 1961 authorizing legislation<sup>1</sup> and formed a new basis for a restructured U.S. aid program. The proposed legislation was not enacted by the 103rd Congress.

Recognizing the need for proactive change to address the concerns of USAID's critics, the USAID Administrator declared the agency a reinvention laboratory under the President's National Performance Review.<sup>2</sup> In doing so, the Administrator committed the entire agency to rethink, streamline, and improve its operations.

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## Results in Brief

All six governments and the European Union, to varying degrees, have begun reexamining their foreign aid programs for many of the same reasons as the United States. These reasons are the need to reassess the rationale of post-Cold War aid programs; increased demands for aid, including those from former communist countries in Eastern Europe and the former Soviet Union that currently are considered transitional, not developing countries; diminished financial or staff resources; charges of mismanagement; and, except for Japan, diminishing public support. The experiences of the seven donors we studied offer the following insights:

- The desired balance among the commercial, security, and development objectives of a foreign assistance program is ultimately a political decision that will involve government bodies other than aid agencies and will need to be revisited as conditions change.
- While strategic planning can be a useful internal management tool, as shown by the Canadians, its effectiveness would be greatly enhanced if policymakers addressed the desired balance among multiple objectives through a central, broad-based, and integrated foreign policy.

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<sup>1</sup>The Foreign Assistance Act of 1961, as amended, establishes the legal framework for the U.S. aid program.

<sup>2</sup>The National Performance Review is a governmentwide management reform exercise initiated by the administration under the leadership of the vice president.

- Supporting commercial self-interests continues to be an important objective of donors' foreign aid programs, in spite of an Organization for Economic Cooperation and Development (OECD) agreement to restrict the use of trade-distorting tied aid—an agreement initiated by the United States.<sup>3</sup>
- Devising effective intragovernmental coordination systems that strive for an integrated, coherent policy, acceptable governmentwide, may be a more critical factor in aid effectiveness than the organizational placement of aid agencies because all of the donors' lead aid agencies, including those with cabinet status, lack the political clout of foreign, trade, and finance ministries.
- The growing complexity of aid programs and the proliferation of agencies involved, as seen most recently in the aid programs of Sweden, the European Union, the United Kingdom, and Germany, further reinforces the need for central policy-setting and interagency coordination systems.<sup>4</sup>
- While several of the donor officials we talked with acknowledged some operational advantages of USAID's vast network of overseas offices, all seven of the donors we studied have pragmatically targeted their overseas presence based on the type of program and recipient, their overall foreign policy interests, and the budgetary resources available to staff and support these offices.
- The governments of Canada, the Netherlands, Sweden, and the United Kingdom recognize that the changing role of aid agencies from implementers to brokers of development assistance requires new approaches for accountability, program management, performance measurement, and personnel management.
- A commonality of management weaknesses exists among most of the aid agencies in the countries we studied.

## Aid Planning in an Uncertain Environment

The worldwide recession, growing deficits, and the resulting budget cuts force most donors to make choices among aid programs and recipients. This has reinforced the donors' realization that careful planning is becoming increasingly important. Aid agencies must balance their governments' development assistance goals with newer foreign aid goals

<sup>3</sup>OECD was established in 1961 to promote economic growth and world trade among member states as well as nonmember states. The Development Assistance Committee (DAC), one of a number of specialized committees, was set up by OECD to increase the flow of financial resources to developing countries and to establish common guidelines for implementing the aid programs.

<sup>4</sup>Sweden, for example, has four different agencies, each of which specialize in providing one of the following: (1) development assistance to a select group of countries with which the donor has a long-term relationship; (2) aid to commercial and industrial sectors in developing countries; (3) technical cooperation, concessionary credits, and training; and (4) research cooperation between Sweden and developing countries.

associated with the environment, U.N. peacekeeping, and democracy. The balancing of these goals is then weighed against their governments' self-interests and domestic needs, placing additional pressure on declining aid budgets. In recognition of this dynamic environment, aid agencies are attempting to improve planning procedures.

Until recently, linking development assistance plans to budgets was relatively easy for most donors. Program- and country-level funding was based on incremental changes to the previous year's budget, while funding for new recipients and programs was added to the budget. Now, most donors are struggling with addressing new demands—including those from middle to upper income countries in Europe moving away from communism—with stable or declining aid budgets. Aid agencies have initiated the following mechanisms to manage conflict and competition over limited aid resources:

- Establish criteria upon which to base decisions on country allocation of development assistance funds (Canada, Germany, Japan, Sweden, and the Netherlands).
- Structure budget allocations by region to eliminate the sense of recipient entitlement (Canada, Sweden, and the Netherlands).
- Target assistance based on type of program and income-level of recipient (Germany, Japan, Sweden, and the United Kingdom).

Lead aid agencies in Canada, and aid-associated, for-profit companies owned by the German and British governments, are adopting corporate-style strategic planning as a way to better cope with the dynamic environment. Although strategic planning was viewed as a valuable management tool by Canadian officials, their experience indicates that planning must be balanced by realistic projections of operating budgets and that a policy framework is needed for agency-level strategic planning. See appendix I for a more detailed discussion of the planning aspects of other donors' aid programs.

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## Four Common Structural Dilemmas in Aid Programs

The seven aid donors we studied use a variety of organizational structures for implementing their foreign aid programs. Tasks, such as policy-setting, implementation, and monitoring, are distributed differently. Regardless of the approach, however, most donor governments are struggling with organizational dilemmas that are similar to those facing the U.S. program: (1) ensuring coordination and relieving organizational tension among government agencies, particularly aid agencies and foreign ministries,

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caused by overlapping jurisdictions and conflicts over aid priorities; (2) increasing institutional specialization as new development problems or functions are turned over to newly created aid agencies; (3) determining the most efficient and effective approaches for in-country representation; and (4) determining how much implementation of development activities should be carried out by nongovernment personnel.

The aid programs we studied generally involve agreements between sovereign nations; that is, between the donor nation and the recipient. However, within the donor nation, several ministries, sometimes with conflicting views on aid priorities, share in aid decision-making. Debates over the most appropriate organizational placement of aid agencies often mirror debates over aid priorities. However, the experiences of Germany, the Netherlands, Sweden, and the United Kingdom indicate that structural realignment is not a panacea for relieving organizational antagonism over aid objectives. Officials in these countries and other sources indicate that a governmentwide development strategy, coupled with effective coordination systems, was needed. They pointed out that even cabinet-level status for their respective aid agencies carried little weight within the national government hierarchy. The growing number of specialized aid agencies and the resulting decline in the influence of a lead aid agency underscore the need for establishing governmentwide strategies for development assistance.

Officials we spoke with from seven donors we studied had some type of representation in recipient countries, but none were as decentralized as USAID or delegated as much management discretion to field officers. Most donor officials acknowledged the advantages of USAID's overseas network, but, as a way to control the cost of overseas operations, their governments provided different types of field representation based on program characteristics and ties with the recipient. For example, (1) Canada, the European Union, the Netherlands, Sweden, and the United Kingdom concentrate development assistance staff in a few select target countries; (2) Canada, the Netherlands, and Sweden use locally stationed diplomatic personnel in all but major recipient countries as development liaisons; (3) Germany's and Japan's development liaison efforts are typically undertaken by aid staff temporarily assigned to diplomatic missions or by locally stationed diplomatic personnel; (4) the United Kingdom's development liaison efforts are carried out through diplomatic missions, with regional offices providing technical support; and (5) Japan and the United Kingdom use visiting missions from headquarters to perform

development-related tasks, such as data collection and project appraisals, in recipient countries.

We found no consensus among the seven donors on how much, to whom, or what to decentralize. Canada, for example, has retreated from its recent attempt to decentralize operations because of the high cost. The United Kingdom's primary aid agency is currently reviewing its operations to determine whether tasks should be located at headquarters or in-country. The Dutch are attempting to increase both the number of staff members in recipient countries as well as their decision-making authority.

All seven donors are increasingly using contractors and nongovernmental organizations (NGO) to implement development assistance activities and augment their in-country presence. However, the donors generally lacked a structure to successfully manage these relationships. Our analysis of the work of public administration experts indicates that increasing the role of contractors and NGOs—such as using NGOs to oversee program implementation carried out by other NGOs—calls for a recognition among policymakers of the risks and trade-offs associated with third-party implementation.<sup>5</sup>

For example, a trade-off typically exists between the amount of risk that governments will tolerate and the amount they are willing to invest in management systems to monitor costs. These investments may make contractor and NGO partnerships more expensive, at least in the short-term, than direct agency implementation. Donor officials and other sources also indicated that aid agencies do not have staff members with the skills needed to determine what to finance and to evaluate the actual delivery against what was promised. Appendix II presents more information about issues related to the organizational structures of the various donors.

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## Commonality of Management Weaknesses

The degree to which governments engage in self-assessment of program management and disseminate the results varies greatly. However, donors have reported long-standing problems with inadequate administrative capacity among aid agencies. Since the Cold War no longer provides an overriding political rationale for foreign aid, addressing management problems takes on a new urgency now that politicians and the general public are looking for greater evidence of development results. The lack of

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<sup>5</sup>See John J. DiIulio, Jr., Gerald Garvey, and Donald F. Kettl, *Improving Government Performance: An Owner's Manual* (The Brookings Institution, Washington, D.C., 1993) and Donald F. Kettl, *Sharing Power: Public Governance and Private Markets* (The Brookings Institution, Washington, D.C., 1993).

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criteria for measuring project and program results, preoccupation with formulating new projects, and inadequate monitoring of program and project implementation were consistently cited as problems among the donors.

Other donors echoed USAID's complaint that rapid expansion of programming and management requirements during the 1970s and 1980s without a corresponding increase in staff created many of their effectiveness problems. Aid, audit, and evaluation officials have repeatedly raised the issue that the organizational culture (i.e., the underlying assumptions, beliefs, values, attitudes, and expectations) within aid agencies has not reinforced good management practices. Consequently, increasing staff levels without undertaking the arduous, long-term task of changing the way staff view their jobs was unlikely to improve overall management.

In Canada, Sweden, and the United Kingdom, aid agencies are using a combination of techniques designed to improve overall management. They are providing training relevant to new roles and missions, creating integrated management information systems, and changing their reward systems to reinforce new behaviors among staff. However, officials in these countries indicated that operating expense reductions must be balanced with program reductions if management efficiencies are to be realized.

As part of governmentwide public administration reforms, aid agencies in Canada, Sweden, and the United Kingdom have recently begun to develop results-oriented evaluation systems. These systems are expected to offer the agencies the opportunity to experiment with new development assistance theories and delivery approaches, while providing policymakers better assurances that final decisions will be based on what actually works. In the Netherlands, we were told that the aid agency was exempt from the governmentwide requirement to focus programs on results because of the difficulty of determining an individual donor's impact on macroeconomic changes within a recipient country. A further discussion of common management weaknesses is presented in appendix III.

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## Scope and Methodology

The seven donors—Canada, the European Union, Germany, Japan, the Netherlands, Sweden, and the United Kingdom—were selected for this study because they are major contributors of official development assistance. Together, these donors accounted for over 80 percent of the

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total official development assistance disbursed in 1992, including their contributions to the United Nations and the World Bank. In comparison, the United States provided about 20 percent of total official development assistance disbursed in 1992. Furthermore, we had indications that their governments were proposing, or had implemented, actions designed to address many of the same issues facing USAID.

In Washington, D.C., we interviewed pertinent embassy officials of the seven donors, officials at USAID and the Department of State, and experts in the international community. We gathered general information on managerial initiatives in the public sector through literature searches of academic studies, consulting and research firms, and GAO publications. During our field work, we interviewed donor representatives to OECD and officials from the Development Assistance Committee's Secretariat in Paris, France. We also interviewed officials representing the governments or aid stakeholders in each of the donor countries except Japan. These officials included those from the primary aid agencies, foreign ministries, audit organizations, academia, and nongovernmental officials. In the case of Japan, we interviewed officials at the Japanese Embassy in Washington, D.C. In addition, we reviewed and analyzed current OECD reports, assessments, and other documents, including evaluation, policy, and management reports of the seven donors.

Officials we spoke with from all the donor countries and the European Union were exceedingly supportive of our study; however, the extent to which government information was accessible varied. Sweden, for example, frequently publishes management and program reviews in English to ensure a wider distribution. The information contained in this study on management problems and solutions is based on the self-reporting of the respective governments and on academic studies undertaken in the United States and in Europe. We did not evaluate the quality of reforms undertaken by these donors, nor did we draw specific conclusions about the status of these reforms.

We conducted our study from March 1993 through August 1994 in accordance with generally accepted government auditing standards. Since our study did not directly address the U.S. aid program, we did not obtain written agency comments. However, we submitted this report to officials from USAID's Office of Donor Coordination and they had no comments.

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Please call me on (202) 512-4128 if you or your staff have questions on this report. Major contributors are listed in appendix IV.

A handwritten signature in cursive script that reads "Harold J. Johnson".

Harold J. Johnson, Director  
International Affairs Issues

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**Abbreviations**

<b>BITS</b>	<b>Swedish Agency for International Technical and Economic Cooperation</b>
<b>BMZ</b>	<b>Federal Ministry for Economic Cooperation</b>
<b>CIDA</b>	<b>Canadian International Development Agency</b>
<b>DAC</b>	<b>Development Assistance Committee</b>
<b>GTZ</b>	<b>German Agency for Technical Cooperation</b>
<b>JICA</b>	<b>Japan International Cooperation Agency</b>
<b>KfW</b>	<b>The Reconstruction Loan Corporation</b>
<b>NGO</b>	<b>nongovernmental organization</b>
<b>ODA</b>	<b>Official Development Assistance</b>
<b>OECD</b>	<b>Organization for Economic Cooperation and Development</b>
<b>OECF</b>	<b>Overseas Economic Cooperation Fund</b>
<b>SIDA</b>	<b>Swedish Agency for International Development</b>
<b>USAID</b>	<b>U.S. Agency for International Development</b>

# Aid Planning in an Uncertain Environment

Some foreign aid proponents argue that the moral case for aid has remained unchanged; however, the commonly accepted political case ended with the Cold War and the economic case is being increasingly challenged. As aid agencies struggle to demonstrate the benefits of their programs to both recipient and donor, recent events, such as diplomatic breakthroughs in the Middle East and South Africa, further change the political environment associated with development assistance within national governments and the international donor community. In recognition of this dynamic environment, aid agencies are attempting to plan reforms that generally fall within one of two categories. The first category centers around improving forward planning of the budget process by developing mechanisms to rationalize country allocation decisions, focus programs, and reduce the administrative burden of aid programs. The second, which frequently includes elements of the first, focuses on adapting corporate-style strategic planning procedures to the public sector.

Although a perception exists among some analysts that the end of the Cold War and the dissolution of the former Soviet Union provide donors the opportunity to focus primarily on the development aspects of foreign assistance, aid agencies continue to face the need to balance aid objectives with the self-interests of their governments. The continuing tug-of-war over aid goals is becoming more complicated as most aid agencies try to manage multiple and growing demands with diminishing resources. For example, while using aid to promote a donor's exports was viewed by development experts and economists as not the most effective form of assistance to the recipient, aid officials feel compelled to demonstrate how domestic industry benefits from their programs. This pressure is likely to increase if, as predicted by many foreign policy experts, competition over trade replaces military conflict as the greatest threat to international cooperation.

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## Meeting the Challenges of a Dynamic Environment Through New Aid Strategies

For the last 40 years, one of the rationales for providing development assistance was to contain communism. The Netherlands, for example, targeted development assistance to counter the actions of the two super powers. In the late 1980s, the status quo within the international donor community was jolted by the collapse of communism in the former Soviet Union and its satellite countries. As a result, Cold War geopolitics no longer provided a rationale for why aid to developing countries benefited a donor. Former communist adversaries became new claimants for the shrinking bilateral aid funding levels of most Western donors.

Concessional assistance to Central and Eastern Europe and the countries of the former Soviet Union<sup>1</sup> is not considered to be official development assistance by the Development Assistance Committee (DAC).<sup>2</sup> In part, this is because countries in this region are not among the current list of DAC recipients and some of them are middle-income countries, which fall outside DAC's definition of "developing countries." However, proposals to establish more inclusive DAC definitions of "official development assistance" and "developing countries" are politically sensitive.<sup>3</sup>

Supporters of traditional aid programs are concerned that including aid to the former communist countries in Europe under the rubric of development assistance will result in a shift of emphasis from traditional aid recipients, particularly those in Sub-Sahara Africa. According to U.S. officials, some East European countries also resist being designated as developing countries. The U.S. position is that all aid that meets the criteria of concessionality and development motivation to any, and all, countries should be counted as official development assistance and that DAC should not try to establish a definition for developing countries. At the time of our field work, a Japanese official stated that opinions within the international development community seemed to be moving in the direction of a more inclusive definition of official development assistance.

This change in opinion may reflect the shifting of U.S. and European national security interests from developing nations—the former outposts of the Cold War—to the former communist countries in Eastern and Central Europe and the former Soviet Union. U.S. officials from both the executive and legislative branches have stressed the national security importance of this region's successful transition to market economies within democratic systems. In addition to viewing this assistance as being a high security priority for the continent, West European officials have emphasized that the collapse of communism resulted in the reunification of Europe, which had been artificially divided by communism.

Further challenging the development assistance status quo is the growing skepticism over the validity of development assistance as an engine of

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<sup>1</sup>Most assistance to Central and Eastern Europe and the countries of the former Soviet Union has been in the form of financing mechanisms, such as loans and trade credits.

<sup>2</sup>DAC, one of several specialized committees of the international Organization for Economic Cooperation and Development (OECD), was established to increase the flow of financial resources to developing countries and to improve their effectiveness.

<sup>3</sup>These definitions are important because they form the basis for the international comparison of bilateral aid efforts, for explaining basic aid rationales, and for judging the quality of bilateral development assistance.

economic growth and, therefore, as a benefit to the recipient. The Dutch ambassador to OECD told us that industrialized nations are wasting their money on foreign aid. In his view, what the developing world needs most from the industrialized nations are trading opportunities, not aid. The World Bank's chief economist for Asia made similar observations about aid programs. He is quoted as saying that if trade protections were halved, the resulting increase in exports from developing countries would equal the net aid these countries currently receive—about \$50 billion. According to a Swedish official, an evaluation funded by the Swedish government found its African assistance program had little positive impact after over 30 years of development activity. We were also told that a self-evaluation conducted by four Dutch nongovernmental organizations (NGOs) concluded that the impact of their development activities had been marginal at best.

Other departures from the development assistance status quo include the following:

- The U.S. share of the world's development assistance has steadily declined from almost 60 percent in 1960 to approximately 20 percent today.
- Japan, once an aid recipient, has provided volumes of aid on par with the United States since the late 1980s.
- The signing of the Maastricht Treaty established, in principle, the concept of a political union, implying a common foreign and security policy.
- Erupting ethnic conflict in many areas of the world resulted in the expanding peacekeeping role of the United Nations.
- The reunification of Germany and diplomatic breakthroughs in the Middle East and South Africa occurred.
- The timing of these historical events with a worldwide recession, rising unemployment, and growing need for debt reduction created fiscal constraints on most donor governments.

Since a critical component of planning—whether budgetary or strategic—is establishing a clear policy direction, all the donors in our study have revised, or are reviewing, development strategies to update and clarify policy direction. In 1992, Japan's Cabinet approved, for the first time, an aid charter that stated its overall policies. Canada and the Netherlands recently issued new development assistance charters, while the European Union articulated its revised aid policy through the negotiation and ratification of new trade and development protocols and the development of new regional strategies.

In the last few years, the concept of sustainable development has emerged within the international donor community. Sustainable development strategies typically contain three types of objectives: (1) economic goals that include encouraging economic growth with equity and improving the efficiency of development aid; (2) social goals that address enhancing participation, strengthening democracy, promoting women in development, and encouraging institutional and human resources development; and (3) environmental goals that include controlling population growth and protecting biodiversity. Adopting sustainable development, however, has meant that donors have added new objectives to existing objectives, placing further pressure on fixed or declining aid budgets.

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### Managing Conflict and Competition Through Budgetary Planning Reforms

The majority of aid agencies for the seven donors we studied have initiated various mechanisms to manage conflict and competition over limited financial and operational resources. In the days of expanding aid budgets, we were told that bilateral donors largely based country allocation decisions on incremental changes to the previous year's funding level and dealt with new recipients through add-ons to the program. Declining aid budgets and rapid expansion in the number of recipients, however, have forced many donors into difficult decisions over which programs to fund and then defending the appropriateness of these decisions. In response, aid agencies have developed a number of strategies to rationalize country allocation systems, focus aid programs, and reduce the administrative burden of traditional bilateral country programs.

The aid agencies of Canada, Germany, the Netherlands, Sweden, and Japan have established criteria to ensure recipient selection is consistent with their respective development priorities (see table I.1). The criteria are generally based on a combination of (1) recipient need, as defined by such indicators as income level, agricultural production, and population growth rates and (2) recipient performance in terms of democracy, respect for human rights, development of free markets, and level of military expenditures. The assumption behind development criteria is that the overall effectiveness of economic assistance will be increased by tying country allocations to the economic, social, and political conditions within the recipient country that development experts believe are critical to the success of economic development activities. If the recipient government is unable or unwilling to address the conditions that impede development, then aid agencies can channel their resources to other countries where these resources will be better used.

**Appendix I  
Aid Planning in an Uncertain Environment**

**Table I.1: Comparison of Number of Recipients and Aid Allocation Criteria**

<b>Donor</b>	<b>Number of recipient countries</b>	<b>Number of program countries</b>	<b>Number of program regions</b>	<b>Country allocation criteria</b>
Canada	107	30 <sup>a</sup>	1 (Plans to create other program regions)	<ul style="list-style-type: none"> <li>• Need</li> <li>• Commitment and capacity to manage aid effectively</li> <li>• Quality of social and economic policies</li> <li>• Human rights record</li> <li>• Popular participation</li> <li>• Market-oriented economies</li> <li>• Environmental conservation</li> <li>• Political and economic relationship with recipient</li> </ul>
Germany	113	n/a	n/a	<ul style="list-style-type: none"> <li>• Human rights</li> <li>• Democracy</li> <li>• Legal certainty</li> <li>• Economic and social order</li> <li>• Development orientation of state action</li> </ul>
Japan	117	n/a	n/a	<ul style="list-style-type: none"> <li>• Military expenditures</li> <li>• Democracy and market-based economies</li> <li>• Basic human rights</li> <li>• Social and economic need</li> </ul>
Netherlands	96	3	8	<ul style="list-style-type: none"> <li>• Need based on UNDP<sup>b</sup> poverty indicators</li> <li>• Historical relationships</li> <li>• Economic and sociopolitical policy performance</li> <li>• Environment</li> <li>• Women-in-development</li> </ul>
Sweden	68	19	n/a	<ul style="list-style-type: none"> <li>• Human rights, democracy, and equal opportunities</li> <li>• Development of market economy</li> <li>• Aid effectiveness</li> </ul>

(continued)

**Appendix I  
Aid Planning in an Uncertain Environment**

<b>Donor</b>	<b>Number of recipient countries</b>	<b>Number of program countries</b>	<b>Number of program regions</b>	<b>Country allocation criteria</b>
United Kingdom	114	n/a	n/a	<ul style="list-style-type: none"> <li>• Need</li> <li>• Commonwealth countries</li> <li>• Absorptive capacity</li> <li>• Economic and social policies</li> <li>• Human rights</li> <li>• Accountable government</li> </ul>
European Union	121	n/a	3	<ul style="list-style-type: none"> <li>• Degree of recipient's association with Union members (historical links, aid-trade framework agreements, other commercial interests, and security concerns)</li> </ul>

Source: Compiled by GAO based on donor-provided data.

<sup>a</sup>Canada's policy is to have 30 priority countries; however, the aid agency has had difficulty staying within this threshold.

<sup>b</sup>U.N. Development Program.

As shown in table I.1, another allocation method that some donors use to better focus economic assistance is initiating special relationships with certain countries—that is, establishing “program countries.”<sup>4</sup> For example, Sweden and the Netherlands have 19 and 3 program countries, respectively. The Swedish government has taken the additional step of assigning organizational responsibilities for program and nonprogram countries functionally to different agencies. To illustrate, the primary aid agency is responsible for traditional development assistance to program countries and special programs such as emergency and balance-of-payment support, while one of two agencies is assigned responsibility for nonprogram countries and trade-oriented aid to program countries, based on whether the assistance is for technical cooperation and concessionary credits or for commercial and industrial sector activities.

While a Swedish report concluded that the Swedish organizational structure is unique, the German and British governments also envision

<sup>4</sup>Selecting “program countries,” or establishing special, long-term relationships with a recipient, should not be confused with developing “country strategies” or articulating the types of development activities to be undertaken within any recipient country.

categorizing aid recipients and their corresponding aid programs into functional categories based on their levels of development. For example, the British aid agency suggests that the role and future of aid is changing, based on three categories of recipients. The categories are (1) trade and investment promotion programs for recipients with prospects of becoming aid graduates; (2) traditional economic development programs for countries lacking capital investment, appropriate human skills, and a conducive policy environment needed to take advantage of a good resource base; and (3) humanitarian relief for recipients that are in such severe difficulty (population growth, resource impoverishment, and climatic change) that aid is a permanent subsidy.

Although concentration on a region or a cluster of countries has been a common practice, many donors, to some extent, have structured their internal organizational structures and planning procedures to promote a regional perspective and to meet a number of programming and operational goals. The Netherlands, for example, switched from maintaining bilateral relationships with almost 100 countries to placing all nonprogram countries into 8 regional programs. Under Dutch regional programs, each region receives a fixed allocation, but the recipients within the region do not. Dutch documents and OECD officials stated that this system gives them more political and budgetary flexibility. They can more easily shift funds within each region because a sense of entitlement is not created as it is with recipients of country-specific programs and funding ceilings. Recipients within each region compete for project or program funding and their success is dependent on the quality of project/program designs. According to an OECD official, Canada also established a Southern Africa regional program and adopted a regional focus in Africa as a whole. In addition to increased flexibility, OECD officials stated that operational costs for the aid agency were reduced by shifting to a regional approach.

The Canadian, German, and Swedish aid agencies seek to improve the annual planning and budgeting cycles by focusing on a recipient country, rather than on individual projects or sectors.<sup>5</sup> Moreover, the Canadian aid agency reported that its newly created Country Policy Frameworks increase coordination not only within the agency but also with recipient countries, NGOs, the private sector, and other donors. In Sweden, country-level analyses of special program funds, which were outside the bilateral country programs approved by Parliament, are being developed

<sup>5</sup>The U.S. Agency for International Development (USAID) also seeks to improve planning and budgeting by focusing on the country as the unit of analysis. For example, USAID's annual budget process will reflect programming decisions made by mission officials that are based on country-level objectives tied to performance indicators.

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by the foreign ministry. Parliament sought to become involved in these country allocation decisions because the financing of special funds exceeded that of bilateral programs in the late 1980s.

Other types of budgetary planning improvements are also being implemented. The British aid agency is revising its annual planning cycle to set out in one document the link between program and operating cost estimates. It is hoped this change will enable the agency to address its priorities within available operating funding. The aid agency in Canada is also trying to increase both the quality and quantity of information submitted to parliament and the general public.

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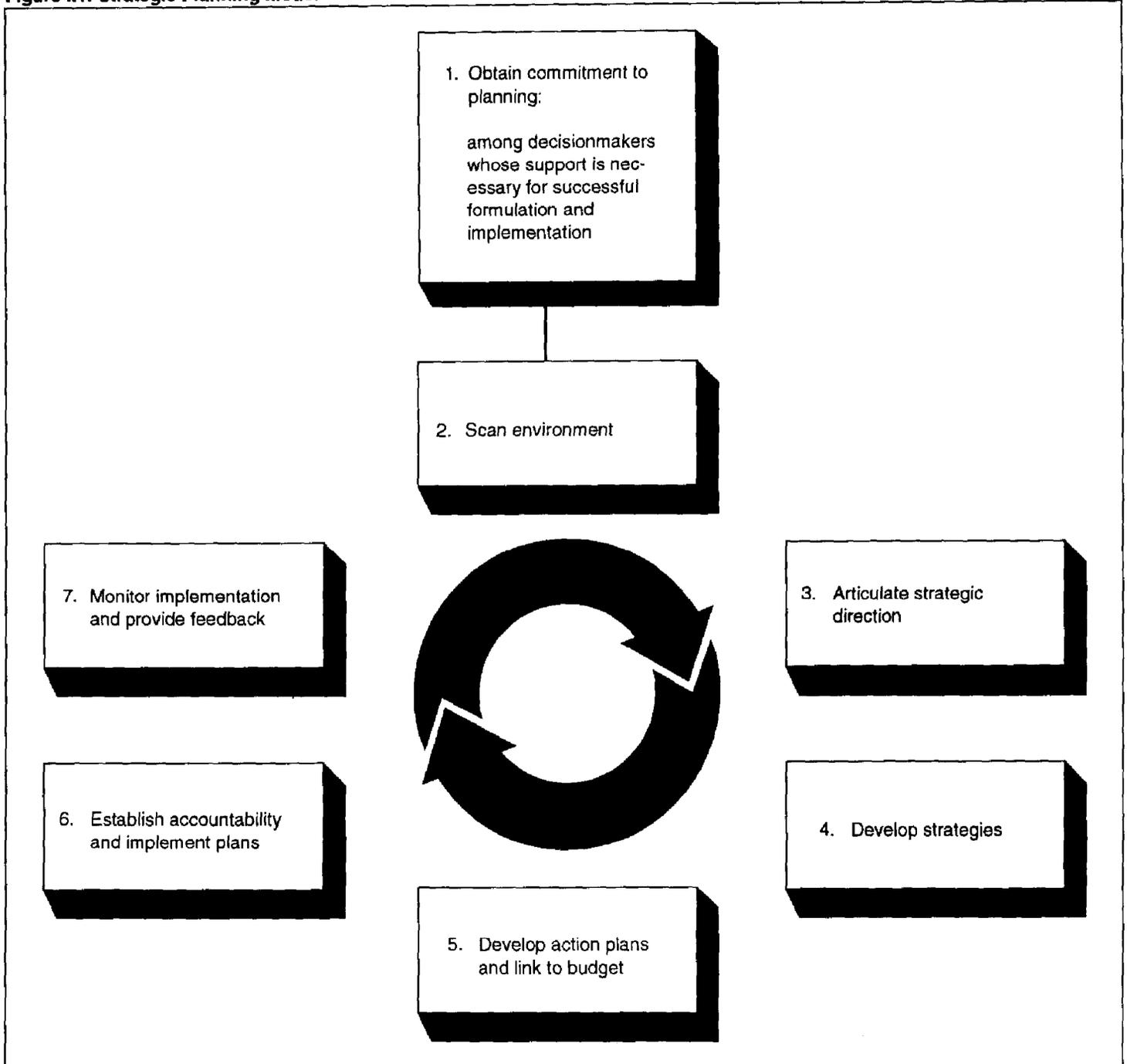
## Adapting Strategic Management to the Public Sector

Some aid agencies and associated public companies in Canada, Germany, and the United Kingdom are adapting corporate strategic planning concepts to the public sector.<sup>6</sup> The key distinctions between strategic planning and traditional planning are emphasis on action; consideration of a broad and diverse set of interested parties (stakeholders); and attention to external opportunities and threats, internal strengths and weaknesses, and actual or potential competitors. Figure I.1 depicts a generic framework of the strategic management process.

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<sup>6</sup>USAID is in the process of implementing a strategic management process as recommended by GAO in *AID Management: Strategic Management Can Help AID Face Current and Future Challenges* (GAO/NSIAD-92-100, Mar. 6, 1992).

Figure I.1: Strategic Planning Model



Source: GAO.

In the early 1990s, the Canadian aid agency undertook perhaps the most extensive strategic management review of any of the donors we studied. The agency assessed its ability to meet future challenges and recommended ways to improve its management practices and philosophy. It also investigated and tested various options for most effectively fulfilling its mandate in the face of drastic changes.

The Canadian aid agency's experience with strategic planning, however, indicates the importance of following through with key elements of the strategic management framework. As part of the review, Canadian aid officials assessed the efficiency and cost-effectiveness of the agency's recently decentralized operation (1988), which was modeled after USAID's overseas mission structure. Although the review was supportive of the success of the decentralization, it noted that the labor-intensive and high-cost nature of this model led the agency to reassess the decentralization. As a result, the agency had to return to centralize operations in less than 4 years because it did not have a sufficient budget to maintain an intensive network of offices.

Although Canadian aid officials presented the results of the strategic management review as well as other background material to the central government, only recently with a change in governments were they able to get foreign policymakers to set in motion the policy review they believed was needed to provide a framework for reform. In 1993, the Canadian foreign ministry, outside the aid agency's strategic management process, directed significant shifts in Canadian aid policy without consultation. According to a Canadian official, a debate erupted when the policy revision was leaked to the press, forcing the government to retract the policy and to promise a full public consultation on aid policy before contemplating any more changes.

The Canadian aid agency's 1994-95 renewal plan includes a strategy for improving relations with stakeholders and the public through the development of a strategic communication plan. The agency plans, for example, to conduct attitude and opinion research with general and special target groups. A survey was to be undertaken in early 1994 to obtain the views of stakeholders as to improvements in the process and substance of agency consultations. This survey will be repeated in 1995.

The German Agency for Technical Cooperation (GTZ) and the British Crown Agents, two public entities that administer development assistance activities and contracts, are considered for-profit operations by their

governments. According to GTZ officials, the use of strategic planning by these two entities has led to innovative approaches, such as establishing a commercial partnership between the two companies. During its strategic planning exercise, for example, German officials stated that the German technical cooperation company focused on redefining its corporate identity, rather than on its current identity as an implementer of German technical cooperation.

A key strategic issue identified during this strategic planning process was the increasingly important role of international organizations in designing and financing development assistance cooperation activities at the expense of certain bilateral programs, including that of Germany. We were told that management realized the difficulty the German company would have competing for increasingly restricted budget resources with other government programs. The result was a business plan to expand its market to include other donors. The company was able to negotiate with the cognizant parliamentary committees and its supervisory board to allow it to follow an independent course. In the spring of 1993, the German company opened an office in Brussels, indicating the increasingly important role the development cooperation activities of the European Union are expected to play in the company's future.

The British Crown Agents is also on its way to meeting its key strategic objective of income diversification. According to a British report, the impact of British aid funding reductions on the company has been reduced by its contracting for the development work of other donors, including the World Bank, the European Union, and the Japanese and Dutch governments.<sup>7</sup>

## Threats and Opportunities for Aid Agencies

Although aid agencies face multiple threats and opportunities, two stand out as being particularly relevant to the U.S. debate over development assistance policy. First, commercial self-interest appears to be replacing security goals as the most important rationale for aid programs.<sup>8</sup> The most common argument given for using foreign assistance to promote donor exports is that it will win political support for aid programs by demonstrating a direct benefit to the donor's economy. Second, aid programs have been, and will remain, a tool of foreign policy.

<sup>7</sup>Annual Report and Accounts, 1992 (Crown Agents for Oversea Governments and Administrations, n.d.).

<sup>8</sup>See International Trade: Competitors Tied Aid Practices Affect U.S. Exports (GAO/GGD-94-81, May 25, 1994).

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Consequently, most aid agencies find it just as difficult to change existing country allocation decisions based on development criteria as they did during the Cold War era.

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### Continuing Importance of Commercial Payoffs Is Likely

Donors included in our study place more weight on commercial objectives than does the United States. Some development experts assert that the U.S. program has had a relative lack of emphasis on the commercial payoffs of assistance. In fact, the United States motivated OECD to establish restrictions and guidelines on the tying of aid for commercial advantage.<sup>9</sup> Although the amounts of official tied aid reported to DAC have been declining, it is possible that the reported levels do not represent the full scope of bilateral donors' tying of assistance. Many experts have stated that economic assistance may remain effectively tied (informally tied) by (1) controlling the choice of programs and projects, or commodities and services, where the donor's businesses have a comparative advantage; (2) creating procurement procedures that make it difficult for nondonor country firms to compete; (3) funding feasibility studies and joint ventures that establish conditions favorable to the donor's business community; and (4) using business employees in an official capacity for short-term assignments, as is reportedly occurring in Japan, who can then advance projects beneficial for their firms.

Anecdotal evidence provides numerous examples of the use of informally tied aid. Although Japan reports the lowest amount of officially tied aid, Japanese trading houses and consulting firms often play a leading role in helping developing countries identify potential aid projects. According to some experts, since the specifications are developed by Japanese firms, these firms have a clear advantage when bidding for projects. Other donors, such as Canada, are also encouraging their private sector to become involved in aid programs by establishing contacts with domestic companies in various industrial sectors and funding exploratory, feasibility, and project investment studies for these companies. The Canadian aid agency has also set up a Business Cooperation Branch to facilitate the private sector's role in development. To further illustrate, an OECD review stated that it was not clear if the Dutch reporting on

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<sup>9</sup>The formal definition of tied aid refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Partially tied aid consists of loans or grants that are, in effect, tied to procurement of goods and services from the donor country and from a restricted number of other countries, primarily the recipient and possibly other developing countries.

procurement tying for technical assistance corresponded to the letter and spirit of the definition agreed to by OECD members.<sup>10</sup>

In Sweden, a proponent of development aid for its own sake, a study was published that claimed a fair amount of informal tying by the Swedish government.<sup>11</sup> For example, projects have often been chosen in sectors where Swedish exports are competitive (telecommunications, water supply, hydroelectric power). Other forms of informally tied aid were (1) ensuring compatibility of project specifications and Swedish export supply, (2) reducing the level of open competitive bidding, (3) establishing special projects outside country programs that were used to direct funding toward developing Swedish technology, and (4) establishing procurement courses for officials of recipient countries and funding study tours to inform them as to what the Swedish market could supply.

According to the President's Commission on the Management of A.I.D. Programs, Germany provides another variation of informally tying aid. It uses a practice called "advance bidding" in which a financial aid commitment is made for a project with the stipulation that if a German firm does not win the contract, the commitment will be reallocated to another project.

Aid officials in Germany and the United Kingdom told us that European multilateral aid commitments will likely rise in the 1990s because of the growth of Eurolateral aid—member states' contributions to the European Union's development assistance programs. Although individual members of the European Union are required to report bilateral tied aid to OECD, the OECD agreement specifically excludes "aid programs of multilateral or regional institutions." Thus, tied aid that is offered by the European Union is considered by OECD to be multilateral aid and cannot officially be challenged as tied aid by the United States. For example, capital project loans of the European Investment Bank, a financial institution of the European Union, may be used in association with member state or European Union economic assistance grants.

A USAID official stated that European support of the European Union's development programs is motivated by a desire to demonstrate political support; however, some U.S. officials have suggested that these

<sup>10</sup>Aid Review 1991/92: Report by the Secretariat and Questions for the Review of the Netherlands, (OECD/DAC, Jan. 13, 1992).

<sup>11</sup>Pierre Frühling, Editor, *Swedish Development Aid in Perspective: Policies, Problems, and Results Since 1952* (Varnamo, Sweden: Falchs Tryckeri AB, 1986).

governments might be shifting funds as a way to circumvent the rules of the OECD agreement. Potentially validating the concerns of these officials, the Dutch are on record as advocating converting aid tying at the national level in Europe to tying at the Union level.<sup>12</sup>

Demonstrating the political importance of commercial interests, all seven donors we studied reportedly compile information on the amount of aid funding used for procurement in donor countries or member states (return flows). German officials stated that high reflow levels help to mitigate pressures from business interests to directly tie aid funding. In Sweden, the concept of return flows first made its appearance in government aid legislation in the late 1970s. The government's objective was that Swedish aid, while fulfilling all its development goals, should be managed in such a way that the amount of return flows increased.

According to a Swedish study, while the economic motives were similar to those that once prompted government to suggest an expansion of official tied aid, a return flow was, and has remained, a neutral or even positive concept.<sup>13</sup> The catchword became better use of the Swedish resource base in development assistance activities, rather than formally tying aid. The public's reaction to the concept of return flows was more restrained because return flows did not explicitly support the Swedish economy. It did, however, offer reassurances to members of Parliament and special interests that Swedish businesses did benefit from bilateral economic assistance.

The various methodologies used for collecting reflow data ranged from making estimates based on World Bank information (Sweden) to maintaining a reflow database built upon disbursement information (Germany). Although the Germans expressed the most confidence in their statistics, most European donors noted that the accuracy of reflow statistics was often questionable. This condition was similar to what we found for U.S. reflow data.<sup>14</sup> Regardless of the accuracy of the data, however, officials from each of the European donors we visited expressed the need to meet constituents' desires to have a general idea of the effect aid programs had on the business community within the donor country.

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<sup>12</sup>A World of Difference: A New Framework for Development Cooperation in the 1990s (Netherlands Development Cooperation Information Department, The Hague, Apr. 1991).

<sup>13</sup>Pierre Frühling, Swedish Development Aid in Perspective.

<sup>14</sup>Foreign Assistance: Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy is Doubtful (GAO/NSIAD-93-196, Aug. 3, 1993).

## AID Programs Remain Politically Sensitive

Based on our study, it appears that policy statements and allocation systems based on current theories of the in-country conditions needed to achieve development results are a logical development for aid agencies; however, they may unintentionally set the stage for further criticism of aid agencies already under public scrutiny if implicit commercial and political objectives of other government agencies overrule explicit development objectives in country allocation decisions. The desired balance among the commercial, security, and development objectives of a foreign assistance program is ultimately a political decision that will need to be revisited as conditions change over time. It is also a decision that will inevitably involve objectives other than those of development agencies.

Despite developing recipient performance criteria as a way to equitably and effectively allocate often diminishing resources, most of the aid agencies we studied found it difficult to change existing country allocations. We were told, for example, that the British aid agency would like to enforce its human rights conditionality with India but has been unable to do so because of the foreign ministry's intervention. A USAID official stated further that the British foreign ministry does not want to jeopardize the close ties between the two countries over development criteria. The Canadian Auditor General's 1993 report concluded that it had been difficult for the Canadian aid agency to concentrate on traditional development assistance, while at the same time dealing with the commercial and political objectives advocated by key players in the government.<sup>15</sup> In the view of Canadian officials, the Canadian government's practice of targeting economic assistance to mirror the ethnic make-up of its population has further complicated the aid agency's ability to concentrate resources.

Dutch officials were concerned, in one instance, that their proposed elimination of one recipient might not be politically feasible because of its religious ties with a powerful faction in the Parliament. According to a Brookings Institution study, the Japanese prime minister told the Japanese Parliament, the Diet, that China, a country of commercial interest to Japan, would be exempt from the new aid charter's guiding principles on allocation of resources.<sup>16</sup>

In Germany, officials appeared to hold different interpretations of development criteria. Aid officials said that the development criteria, or "guiding principles," were among the various factors to be considered by

<sup>15</sup>Report of the Auditor General of Canada to the House of Commons, 1993 (Auditor General, n.d.).

<sup>16</sup>Edward, J. Lincoln, *Japan's New Global Role* (Washington, D.C: The Brookings Institution, 1993).

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**Appendix I**  
**Aid Planning in an Uncertain Environment**

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the government when making country allocation decisions, while auditors told us that they fully expect the government to demonstrate a correlation between country allocations and development criteria.

# Four Common Structural Dilemmas in Aid Programs

Regardless of the organizational structures donors have used to manage economic development aid, they all have had to confront four challenges:

- ensuring coordination and relieving organizational tension among government agencies, particularly aid agencies and foreign ministries, caused by overlapping jurisdictional boundaries and conflicts over aid priorities;
- increasing institutional specialization as new development problems or functions are turned over to newly created aid agencies;
- determining the most efficient and effective approaches for in-country representation; and
- determining how best to manage programs that are increasingly implemented through contractors and nongovernmental organizations as a way to augment in-country representation.

## Trade-Offs Between Organization Structure and Interagency Coordination

The difficulty of establishing a clear policy direction as discussed in appendix I is reflected in the organizational tensions evident within donor governments. Debates over the most appropriate placement of aid agencies within the government are often proxies for, or extensions of, the debate over aid priorities. However, the experiences and views of other donors suggest that structural realignment is not a panacea for relieving organizational antagonism over aid objectives.

The formal standing of the British aid agency, for example, has fluctuated greatly over time, but, at no time, was it allowed to assume broader responsibility for shaping relationships with developing countries. The agency began as a separate ministry in 1964 and at various times in its history has had cabinet status. In trying to define its role, the agency ran into continued hostility within the government over its status and demand for resources. In 1970, with a change in governments, the agency was absorbed into the foreign ministry. The aid minister continued to be charged with the task of day-to-day control of aid matters and became one of several ministers of state within the foreign ministry. Except for a brief hiatus in the mid-1970s, this organizational structure has remained in force since then.

We were also told by German and OECD officials that although Germany and the Netherlands have a cabinet-level development cooperation ministry and minister, the agency and the minister seldom have the institutional clout of other cabinet-level ministries or ministers. The Swedish experience suggests that aid agencies will be allowed to operate

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**Appendix II**  
**Four Common Structural Dilemmas in Aid**  
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independently only to the extent that aid programs are complementary to the Foreign Ministry's foreign policy objectives. We were told by Swedish officials that their foreign ministry is reasserting control over development policy because it views the agenda of the aid agency as being out-of-step with the times. Furthermore, policy dialogue, a key component of current development assistance strategies, is also creating turf battles between aid agencies and foreign ministries. Officials of the Swedish foreign ministry told us, for example, that they see policy dialogue as a diplomatic function that should fall under their purview.

Another source of organizational tension is the trend toward organizational specialization, a pragmatic approach to multiple objectives that carries the price of coordination trade-offs. (See table II.1.) In some cases, new agencies were created because the cognizant aid agency was resistant to a particular objective—frequently, trade or private-sector development. In other cases, the evolving complexity of development assistance was perceived as being beyond the administrative capacity of any one agency.

In Sweden, for example, the distribution of responsibilities between aid and trade agencies was the result of a lengthy political process. Swedish officials believe this arrangement was the best solution to safeguard the overall program and acknowledge specific interests, despite its inherent conflict potential. The United Kingdom and the European Union also created new organizations to administer environmental research, related to sustainable natural resources, and humanitarian programs, respectively. According to some donor officials, having separate, independent agencies administer different economic assistance objectives has led to policy coherence at the agency level, but significant coordination trade-offs at the interagency level.

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Four Common Structural Dilemmas in Aid  
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**Table II.1: Roles and Functions of Aid-Related Agencies of Selected Donors**

<b>Donor/lead aid agency</b>	<b>Organizational location within central government</b>	<b>Other aid-related agencies</b>	<b>Other agencies' functions</b>
Canada			
<ul style="list-style-type: none"> <li>• Canadian International Development Agency (CIDA)</li> </ul>	<ul style="list-style-type: none"> <li>.. Reports to the Ministry for External Relations and International Development, and to the Secretary of State for External Affairs</li> </ul>	<ul style="list-style-type: none"> <li>• International Development Research Centre</li> <li>• Petro-Canada International Assistance Corporation</li> <li>• International Centre for Ocean Development</li> <li>• International Centre for Human Rights and Democratic Development</li> </ul>	<ul style="list-style-type: none"> <li>.. Supports and conducts scientific research into problems of developing regions; reports to Parliament</li> <li>.. Assists developing countries in reducing dependence on imported oil; reports to Parliament through Minister of Energy, Mines and Resources</li> <li>.. Supports cooperation in ocean development</li> <li>.. Promotes democracy and human rights through projects and technical assistance</li> </ul>

(continued)

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<b>Donor/lead aid agency</b>	<b>Organizational location within central government</b>	<b>Other aid-related agencies</b>	<b>Other agencies' functions</b>
Germany			
<ul style="list-style-type: none"> <li>• Federal Ministry for Economic Cooperation (BMZ)</li> </ul>	<ul style="list-style-type: none"> <li>.. Cabinet-level ministry that must coordinate projects with the foreign, economic, and finance ministries</li> </ul>	<ul style="list-style-type: none"> <li>• Reconstruction Loan Corporation (KfW)</li> <li>• GTZ</li> <li>• Carl Duisberg Society</li> <li>• German Foundation for International Development</li> <li>• German Volunteer Service</li> <li>• German Institute for Development Policy</li> <li>• Senior Expert Service</li> <li>• German Investment &amp; Development Co.</li> </ul>	<ul style="list-style-type: none"> <li>.. Implements BMZ financial cooperation</li> <li>.. Implements BMZ technical assistance</li> <li>.. Implements BMZ financed training</li> <li>.. Implements BMZ financed training</li> <li>.. Sends young German professionals overseas; financed by central government</li> <li>.. Conducts research; jointly financed by central government and BMZ</li> <li>.. Sends German retirees overseas; financed by central government</li> <li>.. Promotes the development of the private sector in developing countries</li> </ul>
Japan			
<ul style="list-style-type: none"> <li>• Ministry of Foreign Affairs</li> </ul>	<ul style="list-style-type: none"> <li>.. Ministry that jointly sets policy and approves loans through consultations with Ministries of Finance and International Trade and Industry, and Economic Planning Agency</li> </ul>	<ul style="list-style-type: none"> <li>• Japan International Cooperation Agency (JICA)</li> <li>• Overseas Economic Cooperation Fund (OECF)</li> </ul>	<ul style="list-style-type: none"> <li>.. Executes the bilateral grant program for the Ministry of Foreign Affairs</li> <li>.. Executes development loans</li> </ul>

(continued)

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<b>Donor/lead aid agency</b>	<b>Organizational location within central government</b>	<b>Other aid-related agencies</b>	<b>Other agencies' functions</b>
Netherlands			
<ul style="list-style-type: none"> <li>• Directorate-General for International Cooperation</li> </ul>	<p>.. Organizationally under Directorate within Foreign Ministry with political responsibility being assigned to an independent cabinet-level Minister for Development without portfolio</p>	<ul style="list-style-type: none"> <li>• Organization for Development Cooperation</li> <li>• National Advisory Council on Development Cooperation</li> <li>• Finance Company for Developing Countries</li> </ul>	<ul style="list-style-type: none"> <li>.. Provides technical assistance under its own program or for other Dutch agencies; Independent entity</li> <li>.. Provides policy and scientific advice to Parliament and the government</li> <li>.. Provides project and investment financing, technical aid and investment studies</li> </ul>
Sweden			
<ul style="list-style-type: none"> <li>• Swedish International Development Authority (SIDA)</li> </ul>	<p>.. Quasi-independent agency under the policy direction of the Ministry for Foreign Affairs, Department for International Development Cooperation</p>	<ul style="list-style-type: none"> <li>• Swedish International Enterprise Development Corporation (SwedeCorp)</li> <li>• Agency for International Technical and Economic Cooperation (BITS)</li> <li>• Agency for Research Cooperation with Developing Countries</li> </ul>	<ul style="list-style-type: none"> <li>.. Provides aid to the commercial and industrial sectors of developing countries; quasi-independent government agency</li> <li>.. Administers technical cooperation, concessionary credits and training programs; quasi-independent government agency</li> <li>.. Administers research cooperation; quasi-independent government agency</li> </ul>

(continued)

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<b>Donor/lead aid agency</b>	<b>Organizational location within central government</b>	<b>Other aid-related agencies</b>	<b>Other agencies' functions</b>
<b>United Kingdom</b>			
<ul style="list-style-type: none"> <li>• Overseas Development Administration (ODA)</li> </ul>	<ul style="list-style-type: none"> <li>.. Located within the Foreign and Commonwealth Office; reports to Foreign Secretary</li> </ul>	<ul style="list-style-type: none"> <li>• Commonwealth Development Corporation</li> <li>• Crown Agents for Oversea Governments and Administration</li> <li>• Natural Resources Institute</li> <li>• The British Council</li> <li>• Developing Countries Trade Agency</li> </ul>	<ul style="list-style-type: none"> <li>.. Provides loans and equity investments; quasi-commercial operation</li> <li>.. Acts as an agent and independent supplier of goods and services purchased by public sector clients worldwide; administers British bilateral loans; commercial for-profit operation</li> <li>.. Markets research and consultancy services designed to improve sustainable management of natural resources; executive agency</li> <li>.. Promotes Britain abroad through cultural, educational and technical cooperation</li> <li>.. Provides expert advice and training to export-oriented sectors; subsidiary of the Crown Agents</li> </ul>
<b>European Union</b>			
<ul style="list-style-type: none"> <li>• Directorate General VIII</li> <li>• Directorate General I</li> </ul>	<ul style="list-style-type: none"> <li>.. Reports to Commissioner for Development</li> <li>.. Reports to Commissioner for North-South Relations</li> </ul>	<ul style="list-style-type: none"> <li>• European Investment Bank</li> <li>• European Community Humanitarian Office</li> </ul>	<ul style="list-style-type: none"> <li>.. Provides financing for development projects; autonomous public institution</li> <li>.. Provides emergency and humanitarian assistance; independent agency</li> </ul>

Source: Compiled by GAO based on donor-provided data.

Note: The degree to which an agency's mandate focuses on aid or trade objectives is difficult to determine; thus, this table includes agencies with commercial objectives that are reportedly developmentally focused.

In contrast to the Swedish approach, the Germans have recently debated combining the two separate public companies for the administration of technical cooperation, GTZ, and financial cooperation, KfW. The Germans considered this action to avoid the types of structural problems, such as

overlapping jurisdictions, interagency competition, and coordination weaknesses, that can occur with specialized agencies. If the government had to make the decision today, German officials told us that it would probably place the activities under one entity, but to do so now would result in a great deal of resistance from the staff and stakeholders of each agency. The government originally structured its program in this manner because of the perceived incompatibility between development projects (technical cooperation) and banking functions (financial cooperation). As KfW became increasingly involved in social programs, however, the activities of the two companies began to blur and to overlap. KfW, for example, funds feasibility studies, hires technical cooperation consultants to advise clients on the administration of projects, and provides training—activities technically under the purview of GTZ.

The German government has decided to address the coordination issue through an elaborate system of cooperation instead of combining the companies. This system of cooperation is designed to provide a unified national strategy for each recipient of German funds. As part of the coordination agreement, the companies will focus on two or three sectors in each country with GTZ providing the initial technical cooperation and gradually shifting the country program over to KfW for financial cooperation. German officials believe that if the government does not carefully follow through with implementation, the coordination system may break down as the two companies simply change project justifications to make technical cooperation look like financial cooperation or vice-versa.

The difficulties inherent in ensuring coordination of overlapping jurisdictions are particularly acute when central direction over development policy does not exist, or breaks down. According to the research branch of the Canadian government, the aid agency of Canada, in theory, advises the government on all matters affecting development assistance. In practice, the perception has grown that it is more influenced by the bureaucratic environment in which it must operate than it is influential in the policy process. The report indicated that this occurs because the aid agency's overall mandate is unclear.

In the Swedish governmental system, policy-making is institutionally separated from the administration of programs and thus, the foreign ministry is set-up to assist the cabinet in setting central policy direction for development assistance to be followed by the various implementing agencies. However, a Swedish report notes that the ad hoc development of

specialized organizations, while providing greater flexibility, also made it difficult for the foreign ministry to obtain an overview of the activities of the development organizations and to set central policy. Therefore, the Swedish foreign ministry is preparing proposals that would enable it to reassert its policy-making role and to exercise more effective coordination over the large and growing number of independent development-related agencies. While the Swedish foreign ministry may be successful in this endeavor, it is instructive to note that, according to a high-level official, Canada tried unsuccessfully to integrate aid, trade and investment, and foreign affairs policy-setting in the early 1980s. This integration was to be managed by the foreign ministry, with separate departments for each area. He also noted that a parliamentary committee reported in 1987 that this organizational approach to better coordination was not working and that the foreign ministry did not pursue trade with sufficient aggressiveness. Moreover, aid became less effective and foreign policy was being subsumed.

Recently established aid programs to Central and Eastern Europe and the countries of the former Soviet Union further complicate the organizational structure dilemmas of donor agencies. Since most donors viewed assistance to this region as reconstruction aid to transform economies mismanaged by communist regimes and not as development assistance activities, aid agencies were typically not given a leadership role in the development or management of this assistance. In the United Kingdom, for example, a new department was set up within the foreign ministry to administer this aid. Some aid officials and other sources, however, indicated that governments did not turn to their aid agencies for leadership in this critically important region because these agencies were perceived as lacking the institutional capacity to address the new category of recipient and resistant to programs that might shift the focus from more traditional recipients.

In the United States, various studies and task forces have proposed restructuring the organizational structure of aid activities as a way to improve operations. The experience of other donors, however, illustrates the difficulty of addressing policy issues through structural realignment.

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## **In-Country Presence**

All seven donors we studied had some type of in-country representation. This representation provides different approaches based on specific program needs and characteristics, instead of trying to establish a global

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network of aid offices like USAID's.<sup>1</sup> These approaches included wide variations, such as development liaison conducted by diplomatic missions, project approval and administrative support provided by regional offices, and the establishment of an independent aid office in-country (see table II.2). The percentage of development staff—defined as civil servants, who are citizens of the donor country, and foreign service officers—stationed overseas by aid agencies also diverged greatly from 51 percent to 5 percent. Typically, development aid staff are concentrated in target countries, which, for strategic or historical reasons, are important to the donor country, while commercial, loan programs administered by other government agencies have few, if any, overseas staff. For example, SwedCorp, Sweden's enterprise development agency, has no staff assigned overseas.

**Table II.2: Overseas Development Offices and Staff Levels of Selected Donors**

Donor	Total staff	Overseas staff	Types of overseas offices
<b>Canada</b>			
CIDA: Development aid agency	1,350	140 (10%)	<ul style="list-style-type: none"> <li>• 40 missions and 9 regional offices.</li> <li>• Report to the ambassador.</li> </ul>
<b>Germany</b>			
BMZ: Ministry of Economic Cooperation provides decision-making	568	27 (5%)	<ul style="list-style-type: none"> <li>• Embassies conduct in-country representation.</li> <li>• BMZ officials overseas are assigned to embassies for consultation on projects.</li> </ul>

(continued)

<sup>1</sup>As we reported in *Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed* (GAO/NSIAD-93-106, June 11, 1993), the proliferation of overseas offices and the growing complexity of the aid program are beyond the carrying capacity of USAID. The USAID Administrator, with the concurrence of the Secretary of State, has recommended 21 field missions for closure as a way to focus the U.S. assistance program on fewer locations and fewer objectives. He has stated that USAID is operating programs in more than 108 offices in 92 countries and that the agency can adopt a more strategic approach by operating in only 50 countries.

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<b>Donor</b>	<b>Total staff</b>	<b>Overseas staff</b>	<b>Types of overseas offices</b>
<b>Japan</b>			
Foreign Ministry: Sees itself as the development aid agency	1,729 <sup>a</sup>	487 (28%)	<ul style="list-style-type: none"> <li>• Foreign ministry diplomatic missions, including some with economic coordination sections.</li> </ul>
JICA: Grants			<ul style="list-style-type: none"> <li>• 44 overseas offices.</li> </ul>
OECF: Loans			<ul style="list-style-type: none"> <li>• 13 field offices.</li> </ul>
Country programming is done through annual missions from headquarters.			
<b>Netherlands</b>			
DGIS <sup>b</sup> : development aid agency	682	45 (7%) <sup>c</sup>	<ul style="list-style-type: none"> <li>• 27 offices within the embassy</li> </ul>
<b>Sweden</b>			
SIDA: development aid agency	507	107 (21%)	<ul style="list-style-type: none"> <li>• 17 development cooperation offices in program countries that help the recipient assess needs and identify projects.</li> </ul>
<b>United Kingdom</b>			
ODA: development aid agency	1,080	47 (4%)	<p>Five regional offices, or development divisions, with delegated authority to approve projects with the agreement of ambassador; also provide the diplomatic missions with more detailed financial, technical, and development expertise.</p> <p>One country aid management office, which will do the substantive work on country program, while headquarters staff will respond to parliamentary queries on the office's behalf.</p> <p>Numerous aid sections of embassies: often staffed by ODA employees seconded to the embassy and responsible for project identification, needs assessment, and project administration.</p> <p>Two special coordination groups: one in Barbados for coordination and one in Fiji to coordinate and support embassies' aid activities throughout the South Pacific.</p>

(continued)

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<b>Donor</b>	<b>Total staff</b>	<b>Overseas staff</b>	<b>Types of overseas offices</b>
<b>European Union Aid Programs</b>			
Directorate-General I: Manager of aid to Asia, Mediterranean, and Middle Eastern Countries	211	108 (51%)	• 19 field missions.
Directorate-General VIII: Manager of aid provided under Lome Convention (Africa, Caribbean, and Pacific States)	533	242 (45%)	•61 field delegations.  Delegations mainly serve as facilitators; they have a limited role in identifying, designing, and preparing projects.

<sup>a</sup>Total of all staff working on development activities.

<sup>b</sup>Directorate-General for International Cooperation.

<sup>c</sup>Estimate; exact number not available.

Source: Compiled by GAO based on OECD and donor-provided data.

Note: The total number of staff, such as local hires, embassy staff, and so forth, involved in development activities is not available. This information represents estimates of development agency staff working overseas on development activities.

For purposes of comparison, USAID has 1,536 foreign service officers with 998 (65 percent) stationed overseas. It also has 25 missions that administer major, ongoing aid programs; 21 offices of aid representatives that administer aid programs that are moderate in size, declining, or have limited objectives; 3 sections of embassies that administer aid programs that are small or are being phased out; and 4 regional offices that provide services to other overseas organizations or administer activities involving several countries.

To varying degrees, all seven donors we studied have been trying to address the issue of the most appropriate level of centralization for their development activities. Canada is in the process of re-centralizing its recently decentralized operations (1988), while some donors have selectively decentralized operations. A Canadian aid agency report noted that, according to most Canadian officials surveyed, the management advantages of decentralization can be negated by high costs; low quality staff, such as the absence of project managers who could manage complex projects; overly bureaucratic field structures; and inflexible rules.<sup>2</sup>

<sup>2</sup>Evaluation of CIDA Decentralization 1991 Annual Report (Canadian International Development Agency, December 20, 1991).

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The United Kingdom's presence abroad is essentially through its diplomatic missions with some management decision-making authority being delegated to the field. The United Kingdom's primary aid agency is reviewing its aid management and organization to determine where certain tasks should be located—at headquarters or at the field missions. To run its second largest program, the United Kingdom recently established a prototype field office in Bangladesh. This office will have 10 to 12 professional staff who will do almost all the substantive work on the country program, while in London 1 to 2 people will respond to parliamentary queries on behalf of the office. A Dutch official stated that the Netherlands is also moving in the direction of selectively expanding its overseas presence and delegation of decision-making authority to the field.

To varying degrees, all seven donors have established several types of public-private partnerships with contractors and NGOs to augment their in-country presence. Their cited reasons for this approach have been primarily pragmatic: lack of government administrative capacity, inflexible civil service rules and procedures, and the increasing complexity of development assistance. The partnerships between donors and NGOs have become increasingly important to most programs and have led to some innovative relationships.

Donors have developed innovative contracting mechanisms to ensure needed technical skills are available without making an employment commitment. Canada, for example, has created field support units, contractor units financed by project funding that is designed to provide the flexibility necessary to respond to changing requirements and priorities of programs and to experiment with various alternatives to headquarters administration. The United Kingdom has developed a corps of contractors that is expected to provide skills needed for emerging development programs and activities under long-term renewable contracts. The United Kingdom is also using new service-level agreements or contracts with service suppliers following each market test. These agreements specify output levels and targets and are expected to facilitate the publication of targets and achievements.

The use of private for-profit companies has become common and, in some cases, such as the British Crown Agents and GTZ, public entities are moving into the realm of the private sector. The British Crown Agents, a British agency that has traditionally provided contracting, procurement, and accounting services for aid recipients and the British aid agency, was

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made an independent foundation by the British government. As such, the Crown Agents will be a commercial, for-profit operation, with the profits accruing to the British aid agency. The Japanese, as well as the European Union, are major clients of this agency.

Germany's GTZ is also a publicly owned corporation. German officials told us that a major advantage of this approach is that all of GTZ's employees fall under the private employment rules, rather than the rigid civil service rules. Another advantage is that as a for-profit company, GTZ has an incentive to keep the costs of its subcontracting under control. According to these officials, the extent to which this move has changed the organizational culture is evident from the legal relationship GTZ has established with the British Crown Agents. In addition, this move is designed to enhance their competitiveness throughout the international donor community, rather than to rely on German contracts for stability or growth.

The debate on decentralization versus centralization has embedded within it a discussion of how, and to what extent, implementation of development assistance should be carried out by nongovernment personnel. In practice, most of the donors, including the United States, are moving toward a brokerage management model in which development agencies finance the private or nonprofit sectors' design and implementation of development assistance. As we have previously reported, many of USAID's current problems stem from its incapacity to manage its public-private relationships.<sup>3</sup>

Other donors noted the way in which these relationships fundamentally change the role of the aid agency. For example, according to a Swedish report:<sup>4</sup> "Aid administration thus requires highly qualified generalists, to be complemented with specialist competency primarily contracted from outside the agency."

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<sup>3</sup>Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

<sup>4</sup>Ann Wilkens, *Development Aid in the 1990s: Swedish Experience and Perspectives* (Swedish International Development Authority, 1990).

## Public-Private Relationships With Nongovernmental Organizations

The donors we studied are generally expanding the scope and role of NGOs in bilateral development activities. Most of the donors we studied, except Canada, have reported increasing overall funding to NGOs in recent years either directly through increased funding or indirectly through stable NGO funding coupled with decreasing overall official development assistance levels.<sup>5</sup> Except for Japan, these donors have also begun to involve domestic NGOs with policy formulation on an informal basis, programming decisions, and administrative management of their respective bilateral programs. However, the degree to which donors have institutionalized the public-private relationship varies from unstructured (Germany) to highly structured (Canada, the Netherlands, and Sweden) with the other donors falling in the middle range.

Donors are increasingly turning over operational functions traditionally done by their aid agencies to NGOs through these public-private partnerships. The Netherlands (co-financing program) and Sweden (framework agreements) use large NGOs or a coalition of NGOs to act as brokers, managing the relationship between the donor and other NGOs—both NGOs from developed and developing countries. Under co-financing and framework agreements, NGOs independently program government funds and, on a periodic basis, provide retrospective reports on their program decisions and performance. According to a DAC report, the United Kingdom uses a mixed approach, supporting larger NGOs through program agreements and smaller NGOs on a project-by-project basis.<sup>6</sup> Japan, on the other hand, provides support only on a project-by-project basis and often only for a year at a time. Canada—perhaps the most innovative in its support of NGOs—is developing a new approach called “institutional funding.” Under this approach, Canada’s aid agency will place less emphasis on approving NGOs’ programs for government financing and more on assessing the fit of the NGOs’ goals, capacities, and performance with Canada’s development strategy.

The extent to which donors require NGOs to match their funding with NGOs’ own resources varies. Although some countries such as Britain reported attempting to keep the ratio of government support for development activities below 50 percent, others such as Sweden and the Netherlands provide a matching ratio for development projects of 80 percent, and for

<sup>5</sup>USAID has recognized the importance of NGOs as a delivery channel and its evaluation unit has an on-going review investigating under what circumstances it would be in USAID’s management interests to choose a NGO to implement development activities.

<sup>6</sup>The United States often uses a similar approach.

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emergencies and certain sector priorities, 100 percent. We were told by a Swedish NGO official, for example, that only 5 percent of this organization's annual funding came from private contributions.

Another issue, on which donors held varying views, is whether donors should directly finance NGOs indigenous to developing countries. Some donors (Canada and Sweden)<sup>7</sup> use NGOs from industrialized countries as brokers between indigenous NGOs and their aid agencies as well as having the aid agencies directly finance indigenous NGOs. Germany, on the other hand, never directly funds indigenous NGOs, while Japan's and Britain's policy on direct funding is more ambiguous. Although the primary channel for Sweden is indirect assistance to indigenous NGOs through Swedish NGOs, when the program becomes too large for the Swedish NGO to handle, responsibility for it is transferred to the aid agency.

According to a DAC report, direct funding of developing countries' NGOs may be viewed as an encroachment on the turf of industrialized countries' NGOs. An audit official reaffirmed the report's questioning of the administrative capacity of donors' aid agencies, which are stated to be already overextended, to effectively manage their relationships with indigenous NGOs. These sources also indicated that developed countries' NGOs may not have the desire or skills to take on this new broker role.

Overall, most donor officials and other official sources favored the expanding role of NGOs. Among the reasons cited in support of these new relationships were that NGOs are viewed as

- a more effective and efficient approach than using personnel of aid agencies, particularly at cooperating with the poorest;
- an effective way to shift work from downsized government agencies to another organization;
- a less expensive way to deliver economic assistance;
- a way for donors to leverage private funds through co-financing with these organizations; and
- organizations generally worthy of government support as a matter of policy.

In rethinking their governments' use of NGOs, however, many donor and NGO officials, as well as other sources, raised a number of concerns. NGO partnerships that work in one country may not work in another because the historical role of NGOs in relation to the country ranges from partner to

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<sup>7</sup>The United States often uses a similar approach.

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critic and is based on the political culture within each country. DAC reported that some officials believe that donors are pushing these organizations into the promotion of democratic values, without considering how the recipient government might react to foreign funding of an activist indigenous NGO.

Another concern is that governments may be simply shifting their management and administrative problems onto NGOs that are unprepared to undertake the burden. For example, a Swedish study concluded that the effectiveness of increased funding to NGOs was limited by their lack of professional staff, by a limited absorptive capacity, and by the need for stronger administrative skills. The Swedish aid agency apparently greatly increased funding in spite of the study's recommendation that NGOs' funding should be increased gradually and that NGOs may lack the organizational capacity to manage funds because of its own resource problems. According to other donors, their governments have shifted funds to these organizations primarily because of inadequate administrative capacity of aid agencies, such as inadequate staff levels.

The rising level of NGOs' dependency on government funds was a source of concern. For example, donors may be

- creating semipoliticized NGO subsidy systems that are not based on quality and relevance of NGOs' projects and programs;
- establishing a situation in which the public-private partnership will break down as increased competition for declining aid budgets develops between aid agencies and NGOs; and
- creating incentives for NGOs to move into environmental, humanitarian, and disaster assistance, especially when these activities receive 100 percent funding.

Perhaps most importantly, some donor officials were concerned that no one has tested the assumptions behind the rationale for increased use of NGOs. One official stated that NGOs are not as experimental as they claim to be and that after years of experience in development, they still use the "experiment" excuse to justify inefficiency, lack of sustainability, and other problems. According to an OECD issue paper, despite the fact that governments spend 10s of millions of dollars annually through their NGO communities, few governments have taken evaluation seriously.<sup>8</sup> The issue paper also noted that some donor officials believe that NGOs often view

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<sup>8</sup>Jan Smillie, Trends and Issues in the Evolving Relationships Between Donor Agencies and Development NGOs, issue paper prepared for OECD Development Centre seminar (OECD, June 28-30, 1993).

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continued government funding as an entitlement, unconnected to actual performance. A way to help rectify this situation, we were told, was for policymakers to ensure that these organizations are held accountable for their activities under a results-based management system.

Building public-private partnerships, instead of doing the job directly, may be a pragmatic solution to many of the problems facing bilateral donors. However, such partnerships raise important management issues. The aid agencies of Canada, the Netherlands, and Sweden would like their governments to only hold them accountable for those functions over which they have direct control. For example, the Netherlands has five degrees of accountability that depend on the relationship between the aid agency and the other party, while the Canadians reportedly no longer assume government-financed NGOs' activities are "shared endeavors with shared responsibility," but are solely the responsibility of NGOs. We were also told by Dutch and Swedish auditors that they hold aid agencies responsible for setting-up and following-through with good management control systems, but not for the success or failure of any individual NGO. While this may be good management practice, Dutch officials acknowledged that it blurs agency accountability and may prove to be unacceptable to their respective parliaments.

# Commonality of Management Weaknesses

There is a growing interest worldwide in new approaches to public administration that will likely affect how aid agencies manage development assistance. Even though the aid programs we studied were administered under different rules, procedures, and organizational structures, the aid agencies experienced the same types of management problems, including inadequate personnel and management information systems, inability to apply "lessons learned" and follow through on evaluation findings, and disincentives built into public budgeting processes, such as focusing accountability on agency spending patterns. These problems focus management's and stakeholder's attention on the design and approval of aid activities but often work against the need to focus on project and program implementation. As a result, policy debate over aid programs of the seven donors we studied has not been based historically on what has actually been achieved.

In some of the donor countries, there have been calls for a transition from an organizational culture focused on inputs to a flexible organizational structure focused on results. In Canada, Sweden, and the United Kingdom, aid agencies are using a combination of techniques to alter their organizational cultures, including changes in training, the reward systems, and incentives. The other aid agencies are undertaking many agency-level management reforms, such as improving evaluation and follow-up on project completion.

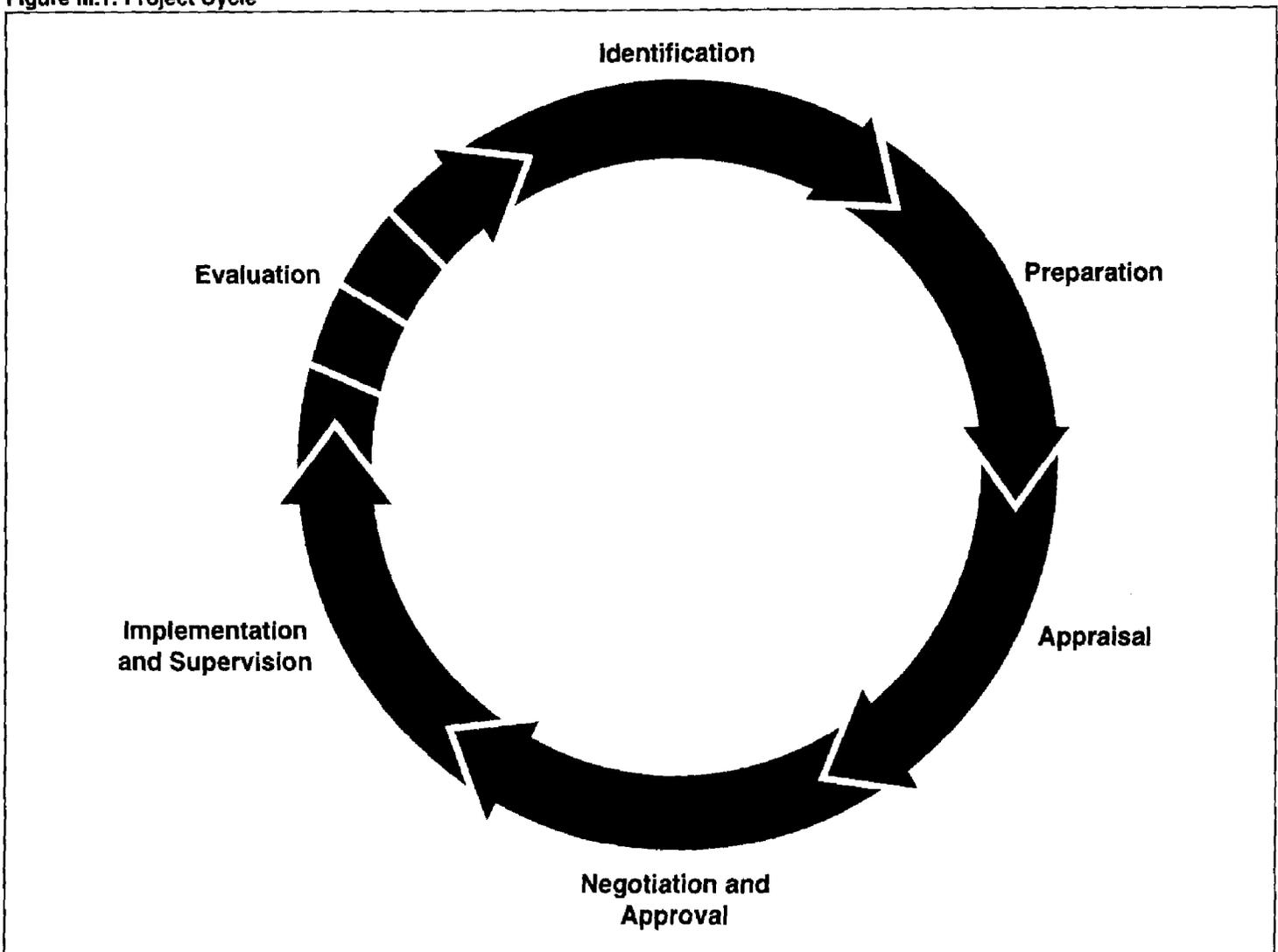
## Overview of Development Assistance Management Tasks

Although there is a wide variation in institutional arrangements and management practices, the conceptual underpinnings for donors' overall aid management are similar. In theory, most donors hold a recipient responsible for the design and implementation of individual projects. In practice, a donor is usually deeply involved in most stages of the project cycle.

The project cycle consists of identification, preparation, design or appraisal, negotiation and agreement, implementation and supervision, and evaluation (see fig. III.1). Identification can come from several sources, including requests from a recipient, local embassy, or aid staff or temporary missions sent by an aid agency's headquarters. Preparation is developing the project idea into a detailed project document or proposal. Once a project has been approved by the cognizant donor official(s), negotiations begin for setting up the framework for cooperation on the project. Implementation is the process by which the project is executed and includes implementation planning, annual work planning, periodic

progress reporting, and supervision. All the donors have some type of procedures to evaluate the success or failure of a project. These evaluations can be conducted during implementation, mid-term, prior to launching a new phase, or after a project is completed.

Figure III.1: Project Cycle



Source: Adapted from the World Bank by GAO.

Normally, the process for determining the need for program assistance follows a series of steps similar to that of project assistance. DAC defines program assistance, which is an increasingly important instrument of development assistance, as consisting of all contributions that are available to a recipient for general development purposes, such as balance-of-payments support, general budget support and commodity assistance, and is not linked to specific project activities.

### Organizational Cultures Do Not Value Management Functions

Officials from Canada, Germany, Sweden, the European Union, and the Netherlands stated that, perhaps, the most critical problem within their aid agencies was an organizational culture—the underlying assumptions, beliefs, values, attitudes, and expectations held by development staff—that emphasized project or program design and other processes but did not value or reward good management practices. To illustrate, Swedish and European Union officials stated that aid managers viewed collecting data and preparing reports as a procedural requirement—a paperwork burden—that must be fulfilled, but they did not analyze and follow up on these data and reports to use them as management tools. A Dutch official told us that development staff in his country want “to be diplomats and doers of good, not accountants.” This attitude was so pervasive that officials from the national audit organizations of two donors told us that senior managers were contemplating shifting, or had shifted, staff resources from auditing development activities to other government activities because auditors kept coming up with the same management findings with no apparent impact on agency practices.

### Agencies Experience Staffing Shortages and Poor Personnel Practices

The rapid expansion of programming and management requirements and the growing complexity of aid activities without a corresponding increase in staff with the necessary skills are said to be major sources of effectiveness and efficiency problems in aid programs. Inadequate staff levels are cited by many aid officials and auditors as the cause of inattentiveness to implementation and monitoring. An auditor for the European Union told us that the Court of Auditors had recommended that the Union increase the budget for operating expenses so that the aid directorates could hire more staff. The European Union’s Commission acknowledged the need for an increase in staff resources at headquarters and in the delegations to ensure that the desired results are achieved in its development assistance programs.

According to aid officials of several donors, inadequate staff levels are the driving force behind many of the programming decisions that garner public criticism. For the Canadian, Dutch, and Swedish aid programs, contracting is said to be unavoidable because the number of aid activities greatly exceeds the agency's administrative capacity. German officials said that their aid program is specifically structured to use contractors, who are citizens of Germany or other developed countries, as a substitute for the direct involvement of German government officials. The officials expressed confidence in the integrity of this contracting system. They indicated that a clear audit trail between the government and its contractors enables them to administer a global program with limited staff, while still ensuring accountability over funds.

A Swedish evaluation study also reported that the major advantage of providing commodity aid<sup>1</sup> in the 1970s and 1980s was that it was easier to administer and quicker to disburse than other aid instruments. Commodity aid recipients were typically those countries for which the Swedish aid agency found it too difficult to administer traditional aid programs. Since these recipients were also characterized by weak administrations and poor macroeconomic policies, the result was that the "messier" a particular recipient was, the more likely it was that Sweden disbursed a high percentage of that recipient's allocation on commodity aid.<sup>2</sup> A 1993 Congressional Research Service report noted that understaffing problems contributed to Japan's sectoral bias toward economic infrastructure projects because these projects allowed a limited staff to disburse a relatively large amount of funds.<sup>3</sup> According to a 1991 Nordic study, multilateral co-financing was originally considered a way to cope with limited bilateral capacity.<sup>4</sup>

Officials also stated that staffing shortages can be exacerbated by poor personnel management practices. The responsibilities of aid staff have typically changed from that of hands-on implementers of aid projects to brokers of development assistance. Officials in Canada, Germany, the European Union, the Netherlands, Sweden, and the United Kingdom told us that, consequently, a poor match exists between the management skill

<sup>1</sup>Commodity import programs provide foreign exchange for the purchase of donor goods.

<sup>2</sup>Stefan De Vylder, *Aid and Macroeconomics: An Evaluation of Swedish Import Support to Guinea-Bissau, Mozambique, Nicaragua, and Vietnam* (Swedish International Development Authority, December 1992).

<sup>3</sup>Nancy J. Hanks, *Japan's Foreign Aid*, Congressional Research Service (93-494F, May 5, 1993).

<sup>4</sup>The United Nations: Issues and Options (Nordic UN Project, 1991).

needs of aid staff and those they possess. Frequent rotation of staff was also mentioned as a problem by officials from Canada, the Netherlands, and the United Kingdom. They pointed out that staff turnover had caused management problems because it resulted in a loss of corporate memory, limited the in-depth knowledge and development of staff, and led to difficulties in holding individuals accountable for the results of aid activities.

In 1993, we reported that top positions in U.S. agencies were often filled by political appointees who generally had little incentive to focus on long-term management issues and the agencies experience a high turnover rate.<sup>5</sup> This was not identified as a concern by any of the donor officials with whom we spoke. One official, however, did mention political patronage as a problem in the European Union. In contrast to the U.S. system, the British aid agency had only one political appointee—the agency head.

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## Budget Targets Focus of Aid Oversight

Although many improvements have been made, aid agencies have traditionally not had effective evaluation and feedback systems. USAID, through DAC, was instrumental in calling the development community's attention to the importance of systematic and formal evaluations for enhancing aid effectiveness. All of the aid agencies in our study have now set up independent evaluation units within their aid agencies or foreign ministries to assess the relevance, efficiency, and effectiveness of aid programs.

A structure or process is also typically set up within aid agencies to evaluate the operational performance of an on-going aid activity. The independent evaluation units in some countries have been criticized for their lack of attention to the overall results of development assistance, while the operational evaluations have been criticized as being self-serving in that the project or the program manager arranges for the evaluation. At the end of the 1980s, the weak link in the evaluation process was the lack of a feedback mechanism to tie evaluation results to programming and allocation decisions. An USAID official told us that this weakness still exists, even though donors now recognize the importance of strengthening evaluation. As discussed below, aid agencies in Canada, Sweden, and the United Kingdom, as well as USAID, are now trying to establish a linkage

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<sup>5</sup>Improving Government: Need to Reexamine Organization and Performance (GAO/T-GGD-93-9, Mar. 11, 1993).

between evaluation results and management decision-making through results-based management systems.

Most of the donors' budgeting procedures focus an agency's attention on funding and spending patterns, rather than on program results. A DAC report notes that since funds provided by parliaments are usually disbursed in the year provided or committed during that year, aid agencies operate under pressure to obligate and disburse funds.<sup>6</sup> The net result is that the "obligate and spend" approach to accountability tends to push aid managers into rapid action and makes it difficult for them to take the time to ensure aid activities are well-designed, -planned, or -implemented.

Even when funds do not have to be expended in the year provided, parliaments and others tend to focus on an overall budget target, or the rate of disbursement of the funds. According to Swedish sources, the success of the Swedish aid agency is often gauged by whether their appropriations meet the 1 percent of its national income target, and not by whether development is occurring. The Swedish aid agency and the aid directorates of the European Union have been criticized by DAC and others for the size of their pipelines of unobligated funds from prior years' appropriations. Unused funds are considered a lost opportunity to redirect scarce resources to higher priorities. As we noted in 1991, the size of the pipeline is important because, among other things, it can be an indicator of management problems in delivering timely and effective economic assistance.<sup>7</sup>

### World Bank Experiences Similar Management Problems

Corroborating the apparent universality of management problems in the development community, the World Bank's internal task force on management published a 1992 report that identified similar causes for declining performance of its development assistance portfolio.<sup>8</sup> The task force's basic conclusion was that the Bank had an organizational culture that was generally preoccupied with new lending that was not matched by an equal emphasis on implementation. According to the report, the Bank's personnel practices reinforced the preference among Bank staff and managers for planning and design. The methodology for project performance rating was considered deficient, lacking objective criteria

<sup>6</sup>Arthur M. Fell, A Comparison of Management Systems for Development Assistance in OECD/DAC Member Countries (OECD, June 7, 1993).

<sup>7</sup>Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

<sup>8</sup>Effective Implementation: Key to Development Impact, prepared by the Task Force on Portfolio Management in October 1992, under the chairmanship of Mr. Wapenhans.

and transparency. Furthermore, the Bank's evaluation system had not placed adequate attention on actual development impact. The report stated that, consequently, the Bank's ability to learn what really works and what does not had been impaired.

## Efforts to Improve Development Assistance Management

Efforts to improve development assistance management by some donors we studied are occurring under the umbrella of governmentwide results-based management reforms, while other donors are making management improvements under aid agency leadership. The motivations for these reforms are the growing public skepticism of government programs in general and aid programs in particular and the need for most governments "to do more with less." The Canadian government, for example, is promoting its Public Service 2000 initiative as a way to enhance government effectiveness. Similar to the U.S. National Performance Review,<sup>9</sup> Public Service 2000 is designed to focus the Canadian government on delivering quality products and services, meeting the needs of its citizens, downsizing the public service establishment, and ensuring greater accountability for results. The Netherlands' Great Efficiency Operation is also an attempt to lessen the tasks of the central government and to downsize its operations. The United Kingdom's Citizen's Charter also aims to improve the overall quality of public services. Its principles include increased privatization, wider competition and contracting out, and basing rewards on performance.

In Sweden, the Results-Based Management Initiative requires agencies' budget presentations to cover the whole spectrum of their activities over a 3-year period. An appraisal will be conducted at the end of each 3-year period to analyze the activities of each agency for compliance with the objectives of Parliament and for efficient use of resources. As part of the results-based management reforms, Sweden is trying to better define and clarify the roles of all government participants. At the core of their reforms is the concept of a contract among the central government, the Parliament, and the involved agency. The central government and Parliament will oversee agency operations by providing 3-year budgets that are based on detailed guidelines that specify the direction and results they expect from the agency.

As its part of Sweden's initiative, the aid agency will conduct periodic in-depth assessments of its entire operations within the normal

<sup>9</sup>The National Performance Review is a governmentwide management reform exercise, that is designed to create a government that works better and costs less by cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics.

operational planning and budget processes. These assessments are expected to provide the basis for setting priorities and reallocating resources. A Swedish document outlining the reforms specifically states that the central government and the Parliament should be accountable for policy, or "for acting as contractors of public sector production." The aid agency is to be held accountable for indicating whether the program, or "order," is feasible and, if so, for reporting on the results achieved at a later date.

To date, the aid agencies of these donors have had varying degrees of acceptance of these public administration reforms. The aid agency of the United Kingdom appears to have demonstrated less resistance to these reforms than other aid agencies. According to a British official, the aid agency is in the process of translating the Citizen's Charter to agency operations. It is, however, using a building block approach, leaving the most difficult programs for last. We were told that the Dutch aid agency was exempted from performance measurement reforms because of the belief that development assistance cannot be measured in the short term and because it is difficult to establish causality for macroeconomic change in the long term. In the view of the foreign ministry and the Swedish National Audit Board, the Swedish aid agency's first application of performance indicators to the budget cycle was a good "first attempt." We were told, however, that the Swedish aid agency is requesting a waiver from the performance measurement reform because it believes factors outside the agency's control determine the overall outcome of development in a recipient country.

Many donor officials and other sources expressed serious reservations about results-based management, in general, as well as reservations about its applicability to foreign assistance, in particular. One concern is whether the performance of an individual government program can be measured and whether it is realistic to presume parliaments will not reexamine government programs annually, in spite of multiyear budgets. Some Swedish officials also expect that tying performance indicators to budget decisions will result in bureaucratic gaming of the system.

A U.S. budget expert has suggested that linking performance to budgets would work best for allocating funds within a country program (measuring the aid agency's performance), rather than among countries (measuring the recipient's performance).<sup>10</sup> Country allocation decisions are often

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<sup>10</sup>Allen Schick, *A Performance-Based Budgeting System for the Agency for International Development* (AID Program and Operations Assessment Report No. 4, June 1993).

based more on other considerations, such as foreign policy or trade concerns, than on a recipient's performance. Furthermore, aid agencies cannot ensure recipients that program performance will necessarily lead to more aid.

A common prescription for results-based management was the development of new definitions of accountability, but these have not proven acceptable to all stakeholders. The Dutch, for example, have established five different levels of accountability for its aid agency, depending on the degree to which an "arms-length" relationship exists between the government and the implementer of development activities. However, these varying levels of accountability have not yet been accepted by all members of Parliament.

Another source of tension is between government reformers and auditors. In Canada, the aid agency was developing a concept of "limited accountability" in which the agency would be held accountable for setting up control systems over contractors, nongovernmental organizations and other implementers, but not for actual use of funds and outcome of an activity. A Canadian Auditor General official told us that limiting the aid agency's accountability for funds and results was unacceptable to his agency and many members of Parliament. This rejection of "limited accountability" can have serious implications for other aid agencies that are also negotiating a shift from control-oriented audit systems to early-warning, solution-based audit systems with audit organizations.

Aid agencies in Canada, Sweden, the Netherlands, and the United Kingdom are using a combination of personnel management techniques to introduce the cultural changes necessary to ensure implementation of results-based management reforms. Canada plans to develop a workforce planning system that is to be used in the strategic planning process to ensure that the use and development of staff support the agency's overall program objectives. Canada and Sweden are developing "competency training programs" that are designed to change attitudes and patterns of staff behavior. Canada and the United Kingdom are implementing individual reward systems so that individuals can be held accountable for achieving development results and meeting specific objectives.

The aid agencies of Canada, the Netherlands, and the United Kingdom are also attempting to address their lack of adequate financial, management, and program information through the development of new computerized systems. The Dutch are working on an automated management system

that will improve controls. The aid agency of the United Kingdom has adopted the use of "Team Up," a project planning and monitoring software package designed by the World Bank and USAID.

While supportive of management reforms, officials from Canada, Sweden, and the United Kingdom raised two issues. In Canada and the United Kingdom, we were told that the central government has promised to couple operating expense reductions with program reductions; thereby, ensuring the agency maintains its administrative capacity. According to a Swedish official, a fear exists within the Swedish aid agency that the focus of public administration reforms will shift from management improvements to justifying arbitrary budget cuts. The U.S. Comptroller General has testified in support of the concept of results-based management for the federal government. He has noted, however, that effective results-based budgeting requires an investment in procurement, recruitment, budgeting, information resources management, personnel, and agency organization and functions.

Germany, Japan, and the European Union have not linked management improvements of aid programs to overall public administration reforms, but they have undertaken management reforms designed to improve foreign aid effectiveness and efficiency. The aid agencies of Germany and Japan are expanding the number of aid staff in the field. The German agency is also conducting "central efficiency control assessments" to supplement and review the comprehensive system of efficiency controls that the implementing public companies carry out themselves. The Japanese aid agency has developed a process that is expected to revitalize existing projects and is called "after care." This process consists of strengthening the agency's monitoring activities over completed projects and providing financial support for remedial action, if necessary.

# Major Contributors to This Report

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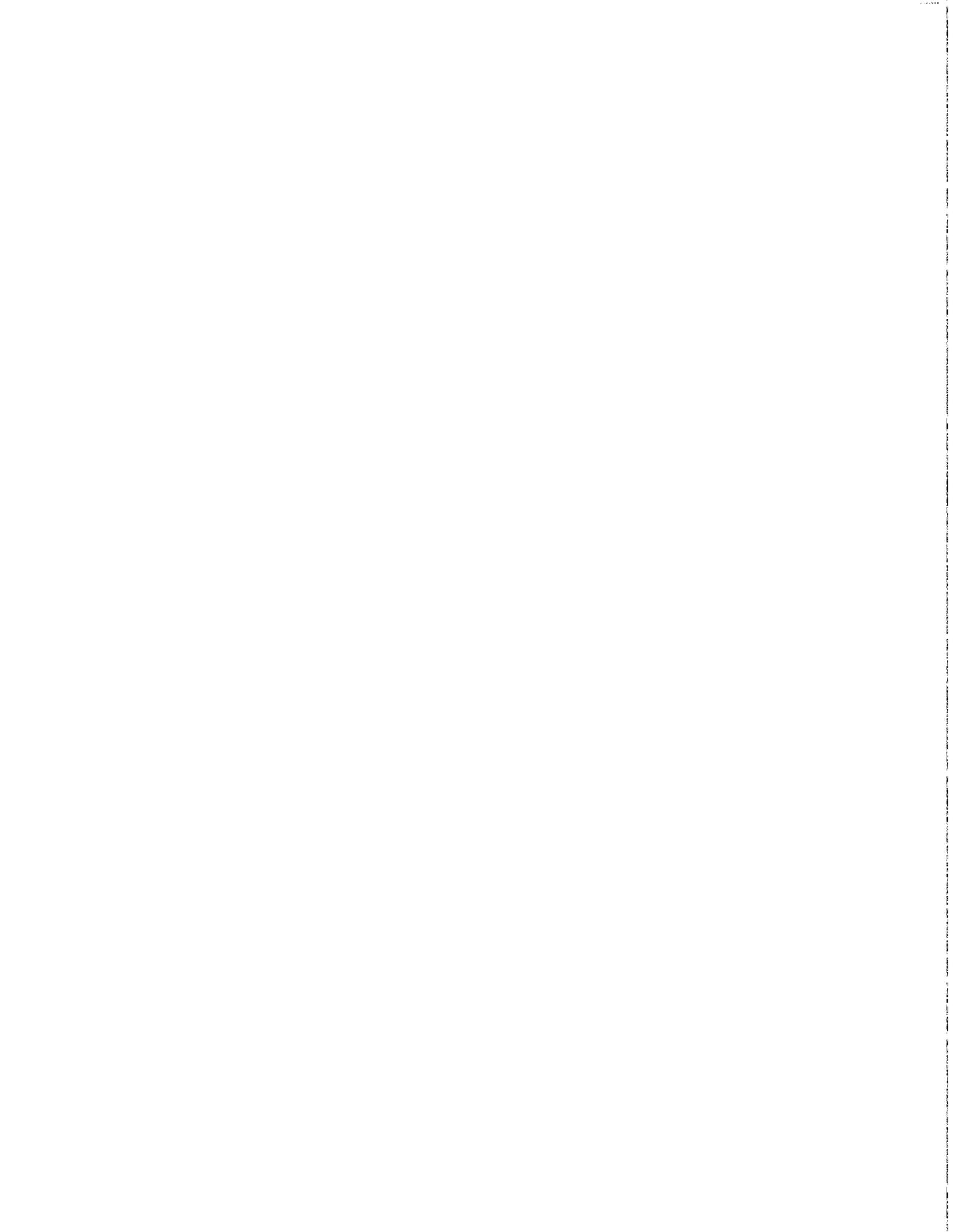
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