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REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES



Channeling Foreign Aid  
Through Private And Voluntary  
Organizations

Agency for International Development

The Agency is generally complying with the congressional directive to channel more foreign aid funds through private groups, but its relationship with the private community is still peripheral to the main Agency program. The issue is the degree of independence private groups should have in carrying out their own programs with Agency funds.

Agency management of contracts and grants with private and voluntary organizations is fragmented. This has confused private groups.

Certain private groups are largely funded by the Agency, but their programs do not directly benefit the poor in developing countries as intended by the Foreign Assistance Act.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-132961

The Honorable Daniel K. Inouye  
Chairman, Subcommittee on Foreign Operations  
Committee on Appropriations  
United States Senate

250-309

Dear Mr. Chairman:

This is in response to your April 17, 1975 request that we review how the Agency for International Development uses private and voluntary organizations, colleges and universities, and outside consultants and advisors, to carry out foreign assistance programs. This report describes the various Agency programs for channeling foreign aid through private and voluntary organizations, and suggests that your Subcommittee may wish to explore with the Agency the question of how much independence private groups should be given in carrying out their own programs with Agency funds. Separate reports are being issued on the other two areas of your request. 97

As you requested, we have not obtained written comments from the Agency or from the private organizations whose grants and contracts are discussed in this report. We did, however, discuss our findings with Agency officials and considered their comments in preparing the report. Private and voluntary organizations having grants or contracts used as illustrations in the report have been informed of the pertinent material. Our review was directed toward evaluating Agency practices, and it was not our intent to judge the private organizations beyond their activities under Agency grants or contracts.

This report contains several recommendations to the Administrator of the Agency for International Development concerning improvements needed in various areas of management. As your office requested, this report will be available for general distribution 2 weeks after it has been received by your Subcommittee. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on

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Government Operations within 60 days and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made more than 60 days after the date of the report. Release of the report will activate section 236.

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00300

Sincerely yours,



Comptroller General  
of the United States

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ABBREVIATIONS

AID	Agency for International Development
CARE	Cooperative for American Relief Everywhere, Inc.
IESC	International Executive Service Corps
OICI	Opportunities Industrialization Centers International
PVOs	private and voluntary organizations

REPORT OF THE  
COMPTROLLER GENERAL  
OF THE UNITED STATES

CHANNELING FOREIGN AID  
THROUGH PRIVATE AND  
VOLUNTARY ORGANIZATIONS  
Agency for International  
Development

D I G E S T

The Agency for International Development has had a longstanding relationship with private and voluntary organizations (non-profit, nonpolitical, and nongovernmental organizations with philanthropic or service-oriented purposes). Voluntary organizations registered with and approved by the Advisory Committee on Voluntary Foreign Aid are to be used, if possible, to carry out the purpose of the Foreign Assistance Act of 1961, as amended. The Foreign Assistance Act of 1973 strongly encouraged the Agency to use voluntary agencies to help solve the problems of poor people in developing countries. (See pp. 1 to 3.)

The Agency is involved with private and voluntary organizations in

--programs related to registration with the Advisory Committee and

--contracts and grants to organizations to carry out assistance activities.  
(See pp. 3 to 5.)

In June 1975, 95 nonprofit organizations were registered with the Advisory Committee. Registered organizations can participate in the overseas freight subsidy program; the Food for Peace program; and the Government-owned, excess-property program. (See p. 3.)

The Agency reported that 86 registered and nonregistered organizations received \$81.7 million in contracts and grants during fiscal year 1975. However, this amount may not be accurate because:

--The Agency has not determined which groups will be considered private and voluntary organizations.

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--The system for gathering data on the money channeled through private and voluntary organizations is inadequate.

--The Agency's report is inaccurate and omits some information. The figure could be as high as \$90.6 million. (See pp. 6 and 7.)

According to Agency guidelines, contracts should be used if the Agency is to manage the program, and grants should be used if close Agency supervision is not intended. The Agency criteria allow for considerable discretion for applying these guidelines; contracts and grants are used interchangeably. In one instance the Agency gave a grant to an organization it had trouble controlling on prior contracts. (See pp. 8 and 9.)

The Agency's office, or focal point, for coordination among the private and voluntary organizations and the various Agency bureaus is not operationally responsible for most programs involving these organizations. This has caused some confusion among the voluntary organizations which contend that their staffs spend too much time complying with Agency requests. The Agency hopes that discussions held in March and April 1976 with the private groups will help clear up the confusion. (See pp. 7 and 8.)

The Agency gave \$11.2 million for general budget support to 15 voluntary organizations in fiscal year 1975. The Asia Foundation, the International Executive Service Corps, and Opportunities Industrialization Centers International received almost \$9 million of this amount.

--The organizations receiving the bulk of these funds have been essentially Government-funded.

--Two organizations receiving 72 percent of the funds did not have as program objectives assisting the poorest majority in developing countries.

--The Agency awarded a new grant to one organization, although its performance had been evaluated as inadequate and mismanagement and administrative improprieties had been reported. (See pp. 11 and 12.)

In April 1974 the Agency started a new approach--working with private and voluntary organizations to involve them in economic development programs, in addition to their traditional humanitarian programs. (See ch. 4.)

It is too early to determine whether this program's objectives will be met. This program could be beneficial if it results in increased and more efficient use of private donations. However, to do this the Agency must insure that the organizations receiving grants have the basic managerial and financial resources to sustain the capability after Agency funding stops. (See p. 32.)

During 1975 the Agency awarded 38 operational program grants valued at \$6.2 million to private organizations. Eighteen grants went to 2 organizations, although the idea was to get more private organizations involved in development programs. (See p. 30.)

Each Agency bureau is responsible for approving grants within its area based on broad Agency-wide standards and procedures. These standards have not been consistently applied by each bureau. This has confused private organizations. (See pp. 28 and 30.)

Private organizations are concerned because the Agency is requiring more accountability and less independence than they believe should be given under the grant program. This is a complex issue and not easily resolved.

GAO recommends that the Administrator, Agency for International Development:

--Develop a listing of groups which are considered private and voluntary organizations

for purposes of reporting Agency-financed support of such organizations. (See p. 9.)

--Establish guidelines fo more consistently applying broad criteria when determining whether a contract or grant agreement should be used. (See p. 10.)

--Inform the Congress about the relationship between Agency money given to private and voluntary organizations and money the organizations receive from other sources and about which groups of individuals in developing countries are benefiting from Agency support. (See p. 24.)

--Require that prior performance be fully considered when extending or awarding contracts and grants. (See p. 25.)

The Subcommittee on Foreign Operations may wish to review and evaluate the Agency's new approach of involving private and voluntary organizations in economic development programs. Several problems have surfaced which center around one issue: the degree of independence private groups should have in carrying out their own programs with Agency financing. The Subcommittee may wish to explore this issue with the Agency, considering questions such as:

--Should the private organizations be forced to conform to the Agency's project design system and priorities?

--To what degree should the private organizations be held accountable for the expenditure of grant funds?

--Would centralized management within the Agency (to oversee the many programs and relationships with private and voluntary organizations) result in more effective use of the private groups and more efficient management within the Agency?

--Would centralized mangement dilute the control currently exercised by the regional and functional bureaus within the Agency? (See p. 26.)

CHAPTER 1

INTRODUCTION

During hearings held on April 17, 1975, the Chairman, Subcommittee on Foreign Operations, Senate Committee on Appropriations, asked that we review and report on how the Agency for International Development (AID) uses private and voluntary organizations (PVOs) in carrying out foreign assistance programs. In subsequent meetings we were advised that the Subcommittee was interested in knowing how extensively AID has used PVOs during the past several years to carry out foreign assistance objectives, whether PVOs have been effective and efficient in using AID funds, whether AID's procedures for selecting PVOs to receive grants or contracts are adequate, and how the compensation levels paid to principal officers of PVOs compare to each other and to comparable AID positions. 97

WHAT IS A PVO?

AID has generally defined PVOs as organizations that are philanthropic or service in purpose, nonprofit, nonpolitical, and nongovernmental. AID's definition includes cooperatives but does not include universities and other educational institutions or research organizations.

Although a general definition has been established, considerable disagreement and inconsistency existed within AID as to which organization would or would not be considered a PVO. For example, the Director of AID's Office of Private and Voluntary Cooperation stated that professional associations, such as the American Medical Association, are not PVOs. 2 Nevertheless, the American Medical Association and other professional associations were included in a list of PVOs prepared by that Office and submitted to the House Committee on Appropriations for inclusion in the record. Conversely, 3 other organizations with which AID has contract and grant 4 agreements, such as the African-American Institute and the Airlie Foundation, were not included on AID's list of PVOs 5 despite the facts that (1) these organizations had been granted tax-exempt status by the Internal Revenue Service, (2) they were performing activities similar to those of organizations which AID included on its list, and (3) they met AID's general PVO definition. D/G 02 987 D/G 01178 49 4

LEGISLATIVE DIRECTIVE  
TO USE PVOs

Channeling U.S. Government funds through PVOs to accomplish certain foreign assistance objectives predates the

Foreign Assistance Act of 1961. In May 1946 the President directed the establishment of a committee whose purpose would be " \* \* \* to tie together the governmental and private programs in the field of foreign relief and to work with interested agencies and groups." Therefore, when the Foreign Assistance Act was passed in 1961, a long standing relationship had already been established between the Government and the private and voluntary community. The 1961 act, which authorized establishment of AID, stated:

"It is the sense of Congress that the President, in furthering the purposes of this Act, shall use to the maximum extent practicable, the services and facilities of voluntary, nonprofit organizations registered with and approved by, the Advisory Committee on Voluntary Foreign Aid."

The congressional directive that AID use, and channel foreign assistance funds through, PVOs, including cooperatives, has been revised and strengthened periodically since 1961. The Foreign Assistance Act of 1973 strongly encouraged the growing interrelationship between private and public agencies. Calling for a new approach to development, section 102(b)(3) of the Foreign Assistance Act of 1961 added by section 2(2)(B) of the 1973 act, states that:

"United States cooperation in development should be carried out to the maximum extent possible through the private sector, including those institutions which already have ties in the developing areas, such as educational institutions, cooperatives, credit unions, and voluntary agencies."

In its report on the Foreign Assistance and Related Programs Appropriation Bill, 1975, the Senate Appropriations Committee stated that it wished to lend its support to the spirit of cooperative and complementary association demonstrated by the evolving relationship between AID and the various PVOs. As a cautionary note the Committee stated that:

"We are concerned, however, that a relationship which too closely joins the Private and Voluntary Agencies with AID may erode the unique character of these organizations. We are fearful that a relationship which involves joint planning and operations will lead to the bureaucratization of these organizations whose strong point has often been their ability to reduce administrative costs and to avoid administrative entanglements."

"The Committee view is that AID should act as a clearing house for programs supported by Private and Voluntary Organizations. AID's role should be that of ensuring that sound fiscal policies are followed, and that the objectives of Private and Voluntary Organizations are in accord with those of the United States and the recipient countries."

#### AID'S INVOLVEMENT WITH PVOs

AID's involvement with PVOs generally is in (1) programs related to PVO registration with the Advisory Committee on Voluntary Foreign Aid and (2) contracts with, and grants to, PVOs to carry out AID programs or the PVOs' own programs in developing countries. Registration with the Advisory Committee is not required for a PVO to be awarded contracts or grants.

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#### Programs related to registration

The Advisory Committee consists of 12 members, appointed by the AID Administrator, who meet several times annually. The Committee was initially established in 1946 as the President's War Relief Control Board to tie together governmental and private programs in the field of foreign relief. The Committee's current charter, dated January 5, 1973, states that it is "To serve as a focal point for relations between the U.S. Government and U.S. private and voluntary organizations active in the fields of relief, rehabilitation, and development overseas." The Committee is responsible to the AID Administrator, and AID provides it with a staff.

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As of June 1975, 95 PVOs were registered. Registration makes the PVO eligible to apply for participation in certain programs and receive benefits from AID. These benefits are (1) the Public Law 480, title II, programs, (2) reimbursement of ocean freight for supplies shipped, and (3) access to U.S. Government excess property. To obtain these benefits, the PVO must first submit a country program for each recipient country for review and approval by AID's Advisory Committee.

AID reports for 1969 through 1974 show that registered PVOs, during their most recent fiscal years, received U.S. Government and private support as follows:

<u>Year</u>	<u>Registration benefits</u>			<u>Government contracts and grants</u>	<u>Private donations and other income</u>	<u>Total</u>
	<u>Overseas freight</u>	<u>Excess property</u>	<u>Public Law 480, title II</u>			
	(millions)					
1969	\$ 44.7	\$ .6	\$163.1	\$ 15.9	\$ 332.6	\$ 556.9
1970	45.4	.7	126.5	20.7	363.8	557.1
1971	44.2	1.0	139.3	21.1	409.4	615.0
1972	47.9	1.9	146.3	25.1	430.8	652.0
1973	42.9	1.1	124.5	39.4	473.1	681.0
1974	41.4	1.6	126.1	91.7	688.4	949.2
Total	<u>\$266.5</u>	<u>\$6.9</u>	<u>\$825.8</u>	<u>\$213.9</u>	<u>\$2,698.1</u>	<u>\$4,011.2</u>

Although 94 PVOs were registered as of December 31, 1974, the report for 1974 shows that only 28 PVOs received registration benefits. These 28 organizations received \$169.1 million in benefits, but \$158 million, or 93 percent, went to 2 organizations--Cooperative for American Relief Everywhere, Inc. (CARE) and Catholic Relief Services.

Programs not related to registration

PVO programs directed toward social and economic development are supported by AID through general and special purpose grants and contracts. As stated, registration with the Advisory Committee on Voluntary Foreign Aid is not a requirement for a PVO to receive a contract or grant, and registered PVOs are not given any special preference when AID awards contracts or grants.

AID stated that in response to the congressional intent to (1) direct U.S. assistance to the poorest majority of the people in developing countries and (2) use the facilities and services of the private sector in accomplishing foreign assistance objectives, the trend in recent years has been to channel increasing amounts of foreign assistance funds to developing countries through PVOs. It appears that AID has increasingly channeled funds through PVOs to carry out foreign assistance objectives; however, as discussed in chapter 2, adequate information systems did not exist to show the full extent of AID's involvement with PVOs.

AID awarded contracts and grants to PVOs for the following purposes:

- General budgetary support grants and contracts to help PVOs meet their operational costs or carry out their own programs.

--Specific support grants and contracts to carry out projects or activities proposed by AID or by the PVO where the purpose, scope and implementation plans are clearly stated and where the costs applicable to the project or activity are segregated from other programs of the PVO. General and specific support grants and contracts were used in implementing the new programs begun by AID in fiscal year 1975 to strengthen the development role of PVOs--the development program grants and the operational program grants.

## CHAPTER 2

### MANAGEMENT OF PVO CONTRACTS AND GRANTS

AID's relationship with PVOs was for many years peripheral to the main AID programs, coming generally within the narrow category of programs related to registration with the Advisory Committee on Voluntary Foreign Aid. These activities were generally carried out or coordinated by AID's Office of Private and Voluntary Cooperation. Meanwhile, other PVOs--both registered and nonregistered--participated increasingly in carrying out overseas assistance programs with AID support in the form of contracts and grants. These programs, not associated with registration with the Advisory Committee, were generally sponsored and funded by AID's geographic and functional bureaus. This evolving relationship with the PVO community has created certain management problems for AID and PVOs. In addition to the problems created by fragmented AID management of contracts and grants with PVOs, we noted other problems in AID's management practices regarding contracts and grants with PVOs. These include:

- The lack of a clear statement, applied agencywide, of which organizations are PVOs.
- The lack of a central system for reporting agencywide support or financing of PVO activities.
- The lack of a central point within AID where PVOs can obtain information concerning the AID geographic or functional bureau activities in which they may participate, in addition to the programs specifically set aside for PVOs.
- The lack of specific guidelines for implementing the broad criteria defining when a contract or grant instrument should be used to accomplish a certain activity.

#### NEED FOR IMPROVED INFORMATION SYSTEMS

As discussed in chapter 1, AID generally considers organizations which are philanthropic or service in purpose, nonprofit, nonpolitical, and nongovernmental--excluding educational and research organizations--to be PVOs. However, this definition is not consistently applied by each of the AID bureaus. We were advised that individual project officers have the option of deciding whether or not an organization,

for reporting purposes, will be considered a PVO. Before AID can establish a viable system to report the total volume of contract or grant activity with PVOs, it must first clearly state which organizations it considers as PVOs.

Other factors also contributed to inaccurate reports on the number and value of contracts and grants awarded to PVOs. We found numerous instances where summary information on contract and grant activity prepared by the Office of Contract Management was inaccurate or incomplete. Data was available from the original contract and grant agreements, but to obtain such information on an ad hoc basis would be a very time consuming process. Furthermore, AID did not have an adequate system to insure that data extracted from the agreements would be complete.

The following example demonstrates the combination of problems in accurately reporting the value of AID contracts and grants with PVOs. AID reported to the House Committee on Appropriations that in fiscal year 1975 it provided about \$81.7 million in contracts and grants to 86 PVOs. Although this information may have been the best information available at the time, we found that it was inaccurate and incomplete. Furthermore, the report listed certain organizations which the AID Office of Private and Voluntary Cooperation did not consider to be PVOs.

Data obtained from AID records indicated that the amount awarded to PVOs during fiscal year 1975 may have been as high as \$90.6 million. This figure may be more accurate than the \$81.7 million reported by AID; however, because of the manner in which AID records are maintained we cannot be certain that we have complete and accurate values of contracts and grants awarded to PVOs during fiscal year 1975. (See app. II.)

In addition to the contracts and grants awarded directly by AID to PVOs, AID indicated that during fiscal year 1975 about \$67 million would be provided to cooperatives as sub-contracts or grants under development loan agreements with participating countries.

FOCAL POINT WITHIN  
AID NEEDED

The current charter of the Advisory Committee on Voluntary Foreign Aid states that the Committee's purpose is:

"To serve as a focal point for relations between the U.S. Government and U.S. private and voluntary organizations active in the fields of relief, rehabilitation, and development overseas."

Despite this directive, neither the Advisory Committee nor AID's Office of Private and Voluntary Cooperation, which provides staff for the Advisory Committee, had information concerning the wide variety of programs and relationships between AID and PVOs. One major concern expressed by PVOs was that a central office did not exist within AID through which voluntary agencies could apply for grants and contracts and to which they would stand accountable. Some PVOs had many separate grants and contracts with AID's regional and functional bureaus, in addition to the programs related to registration with the Advisory Committee. For example, 1 PVO had at least 27 contracts or grants in effect during fiscal year 1975 which were administered by 7 regional and functional bureaus in Washington and 1 overseas mission. Each AID bureau had its own management style, criteria, and priorities to which the PVO was required to conform.

AID officials stated that the lack of a uniform policy on implementation procedures between bureaus has resulted in considerable confusion and annoyance to PVOs which contend that their limited staffs must spend an inordinate amount of time complying with AID requests for information and program management requirements.

In March and April 1976, AID met with groups of PVOs to discuss the problems they had been having in dealing with the various AID bureaus. AID officials said that these meetings should help clear up the confusion and resolve problems PVOs had experienced.

#### GRANTS VERSUS CONTRACTS

AID policy states that contracts are the normal legal relationship for the procurement of goods or services and that grants should not be used as substitutes for contracts, thereby rendering inapplicable the rules and procedures set forth in the Federal and AID Procurement Regulations. Grants are not to be used for the performance of projects over which AID plans to exercise a substantial degree of operational control. AID policy states that it is appropriate to use grants in carrying out the purposes of the Foreign Assistance Act when emphasis is placed on promotion of the independent capacity, integrity, and quality of the organization or program supported, rather than on specific work and the manner in which it is performed on a day-to-day basis.

Although AID's policy guidelines concerning the use of a contract or grant instrument in its relationship with PVOs are clearly stated, these guidelines are not applied uniformly. We found numerous instances where contract and grant instruments were used interchangeably to accomplish the same purpose. For example, grants were generally used to provide general or specific support to a PVO; however, contracts were also used for this purpose, particularly in the case of cooperatives. Also, we noted one instance where AID was having great difficulty exercising any managerial control over the contractor's activities, but rather than enforcing contractor performance clauses or terminating the relationship, subsequent funding was in the form of a grant to accomplish the same general purpose.

#### CONCLUSIONS

AID had not clearly stated which nonprofit, non-governmental organizations would be categorized as PVOs. Consequently, any attempt to report the total of AID-financed support of PVOs would necessarily be subject to question.

AID's Office of Private and Voluntary Cooperation fulfilled a coordinating or leadership role in providing registration benefits to registered PVOs, implementing new developmental and operational program grants, and in coordinating PVO conferences and workshops. In addition, it is the focal point for lodging of complaints by PVOs. However, neither the Office nor the Advisory Committee on Voluntary Foreign Aid currently serves as a central point where the PVOs could obtain information concerning the geographic or functional bureau activities in which they may participate.

AID has established general guidelines concerning the use of contract or grant instruments in dealing with PVOs, stating that grants should be used if AID does not wish to exercise substantial management control over the project. However, AID had not established specific guidelines to be followed by project officers in determining when more or less management control should be exercised over an activity, or exactly how much control should be exercised over grantees.

#### RECOMMENDATIONS

We recommend that the Administrator of AID:

- Develop a listing of groups which are considered PVOs for purposes of reporting the total AID support of these organizations and establish a system for accurately reporting this total.

- Provide for a central depository of information for use by PVOs and others concerning the wide variety of programs and activities in which PVOs may participate.
- Establish specific guidelines for more consistently applying broad criteria when determining whether a contract or grant instrument should be used when AID wishes to have a particular activity carried out by a private organization.

### CHAPTER 3

#### AID'S PROGRAM OF PROVIDING

##### GENERAL BUDGETARY SUPPORT TO PVOS

The Congress has indicated that in restructuring United States relationships with developing countries, the President should place appropriate emphasis on certain criteria, including focusing assistance on critical problems in those functional areas which affect the lives of the poorest majority of people in developing countries: food production; rural development and nutrition; population planning and health; education, public administration and human resource development.

In July 1975, in a report to the House Committee on International Relations, AID stated that one of the key elements in its strategy to meet the legislative objective is to increasingly draw upon PVOs with their unique capacities to directly reach many poor people. AID justified its fiscal year 1976 request for PVO general program support funds by stating that, although PVOs receive the bulk of their funds from private contributions, to help meet operational costs, certain PVOs need general purpose funds from AID. This, according to AID, would help maintain the viability of the largest nongovernmental source of U.S. development assistance in developing countries. AID's internal guidelines for providing general budgetary support to PVOs emphasize that such funds are to be used for partial support of the budget of an organization whose basic program purpose is in harmony with Foreign Assistance Act objectives.

During fiscal year 1975, AID provided general budgetary support of about \$11.2 million to 15 PVOs. (See app. III.) Most of these funds were provided under grant agreements with PVOs, but in certain cases--most notably operational support of cooperative associations--a contractual instrument was used.

Our review of AID's program of providing budgetary support to PVOs was directed primarily toward an evaluation of whether the programs financed by AID were in harmony with Foreign Assistance Act objectives. Where available, we also obtained information in other areas which were of interest to the Subcommittee, such as (1) the sources of funding of the organizations receiving budgetary support including data on program versus operational expenses, (2) whether PVOs have been efficient and effective in using AID funds, and (3) the compensation levels of principal officers of PVOs receiving budgetary support.

The organizations receiving budgetary support had widely diverse program objectives and methods of operation, and consequently our findings concerning each organization differed. However, despite AID's assertions that (1) the general program support funds provide only partial support to supplement a large, nongovernmental source of development assistance and (2) the funds are provided only to those PVOs whose basic program purpose is in harmony with the Foreign Assistance Act objectives, we found that:

- Three organizations--The Asia Foundation, the International Executive Service Corps, and Opportunities Industrialization Centers International--received about 80 percent (almost \$9 million) of the \$11.2 million provided by AID for budgetary support in fiscal year 1975. These three organizations received very small or no private contributions.
- Although AID had information concerning the amount of private contributions made to the three PVOs receiving most of the budgetary support funds, information on the amount of private contributions made to the other 12 PVOs receiving budgetary support funds was in some cases unavailable.
- The program objectives of two organizations which received about 72 percent of the general budgetary support funds--The Asia Foundation and the International Executive Service Corps--were, in our opinion, not fully consistent with the Foreign Assistance Act objectives.

We also found that AID awarded a specific support grant--which was essentially budgetary support--to Opportunities Industrialization Centers International despite the fact that its record of performance had been evaluated by AID and the Department of State Inspector General for Foreign Assistance as inadequate, and the AID Auditor General and a firm of Certified Public Accountants had reported substantial mismanagement and administrative improprieties. AID made new awards without first insuring that problems identified in the past had been corrected.

AID records generally did not contain information on of salaries and expenses paid to executive officers of PVOs, unless the salaries and expenses were paid from grant or contract funds. AID officials stated that they do not believe they are entitled to know the salaries of individuals employed by private, independent organizations when the salaries are not reimbursed by AID.

## THE ASIA FOUNDATION

The Asia Foundation was founded in 1951 and incorporated in 1954 in San Francisco to encourage and assist the educational, social, and cultural development of Asian societies and to further understanding and cooperation between the peoples of Asia and the United States.

### Foundation funding

The Asia Foundation has received most of its financial support from the U.S. Government. In 1967 the Foundation publicly acknowledged that it had received Central Intelligence Agency funds through third parties. In the opinion of AID officials, although the Foundation no longer has any connection with the Central Intelligence Agency, the fact that it once received a major portion of its funds clandestinely has inhibited the Foundation's ability to successfully solicit funds from private sources.

According to AID records, during fiscal years 1969-75 the Foundation's budget was \$40.9 million, of which the U.S. Government funded \$32.4 million. AID funded \$26.6 million and the Department of State funded \$5.8 million. The Foundation stated that in recent years it has enjoyed continually increasing support from the private sector. While support from the private sector may be increasing, information available at AID indicated that the percentage of U.S. Government funding has increased in relation to the Foundation's total budget. The Asia Foundation's budget for fiscal year 1975 was about \$6 million, of which \$5.1 million was U.S. Government funded. The Foundation's overall budget for fiscal year 1975 was as follows:

	<u>Amount</u>	<u>Ratio</u>
Program expenses:		
Grants and services	\$3,650,600	61.3
Operational expenses	<u>1,527,000</u>	<u>25.7</u>
Total program expenses	\$5,177,600	87.0
Home office administration	638,200	10.7
Home office planning division	111,800	1.9
Contingency	<u>25,000</u>	<u>.4</u>
Total	<u>\$5,952,600</u>	<u>100.0</u>

Foundation programs  
versus AID priorities

As previously stated, AID's programs are to emphasize focusing on the problems of the poor majority in the functional sectors of food, nutrition, health, family planning, and nonformal education. The Foundation stated that, although it has long been concerned about the growing gap between the rich and poor in many parts of Asia, its approach to helping solve these problems is not one of direct relief.

During fiscal year 1975 the Foundation carried out programs in the following countries and functional areas:

	Program grants and services	Program operational expenses
Overseas programs:		
Country:		
Afghanistan	\$ 155,000	\$ 59,500
Bangladesh	167,000	56,500
Cambodia	87,500	-
Hong Kong	129,000	36,200
Indonesia	215,000	133,900
Japan	187,250	57,500
Korea	265,000	107,000
Laos	180,500	65,900
Malaysia	16,500	57,600
Pakistan	131,475	64,500
Philippines	200,400	77,100
Singapore	145,325	36,500
Taiwan	189,080	77,500
Thailand	177,000	90,600
Vietnam	<u>217,500</u>	<u>132,200</u>
Total country programs	<u>\$2,620,530</u>	<u>\$1,052,500</u>
Special programs:		
Population	\$ 341,000	
Regional programs	100,000	
Senior program advisers	<u>52,750</u>	
Total overseas programs	<u>\$3,114,280</u>	
Domestic programs:		
Institutional Relations and Program Services	\$ 170,560	
Luce Scholars Program	70,000	
Books for Asia	185,360	
"The Asian Student" Newspaper	110,400	
Operational expenses	-	\$ 474,500
Total domestic programs	<u>\$ 536,320</u>	<u>\$ 474,500</u>
Total program costs	<u>\$3,650,600</u>	<u>\$1,527,000</u>

The Foundation's country programs are organized according to six general areas of interest: education; law and public administration; management, manpower, and economics; urban and rural affairs; publications, libraries, and media; and Asian regional cooperation. The Foundation's programs in these areas of interest consist primarily of small subgrants to schools and other institutions, private organizations, lawyers, and Government officials for projects at the national and local levels.

According to the Foundation's 1974 report, it awarded 698 new grants overseas with an average value of \$2,934 each, and 228 grants administered by its San Francisco office with an average value of \$3,841. Typical examples of the grants awarded include grants to:

- Kabul University in Afghanistan for advanced study in the United States for six members of the Faculties of Letters, Education, and Law and Political Science.
- The Chinese University of Hong Kong for expenses related to the recataloging and reclassification of the Chinese holdings in the university's library and support for the translation/publishing program of the university's Center for Translation Projects.
- The University of Indonesia's Department of Library Sciences for general operational support and scholarship assistance for librarians from state and provincial educational institutions studying at the university.
- The Society for Asian Cooperation for general operational expenses and support for an international conference on "New Goals for Asia in the 1980's."

AID stated that the Asia Foundation's programs, while not directly dealing with the problems of the poorest majority of peoples in developing countries, do serve broad U.S. political interests. We do not question that the Asia Foundation programs may serve the broad political interests of the United States. However, we do not believe that programs and grants described above focused on functional sectors which assist the poorest majority of peoples in developing countries.

Compensation of  
principal officers

AID officials responsible for awarding and monitoring the Asia Foundation grant said they did not know, and did not need

to know, the amount of compensation paid by the Foundation to its principal officers. Although we did not obtain information on the compensation of all Foundation executive officers, we were informed by a Foundation representative that its President currently receives an annual salary of \$44,000, plus \$6,000 housing allowance and the use of an automobile.

INTERNATIONAL EXECUTIVE SERVICE CORPS

The International Executive Service Corps (IESC) was founded in May 1964 by a group of leading American businessmen as a State of New York, not-for-profit organization to help speed economic growth and strengthen private enterprise in developing countries. At the request of individual enterprises in developing countries, IESC sends volunteer U.S. business executives, mostly retired, to provide executive, managerial, production, marketing, financial, personnel and technical assistance. The volunteers serve without salary, receiving only travel and living expenses for themselves and their spouses while on assignment.

IESC funding

AID gave its first grant to IESC on June 15, 1964, about 1 month after the organization was formed. As of December 31, 1975, AID grants to IESC had amounted to almost \$33.2 million. According to IESC, AID grants have declined as a percentage of total cash revenue from 70.6 percent in 1965 to 54.2 percent in 1974. Private donations, while never very large, have also declined as a percentage of total cash revenue, as shown below.

	<u>Actual for calendar</u> <u>year 1967</u>		<u>Budgeted for calendar</u> <u>year 1975</u>	
	<u>Amount</u>	<u>Per-</u> <u>centage</u>	<u>Amount</u>	<u>Per-</u> <u>centage</u>
	(thousands)		(thousands)	
AID grants	\$2,113	62.3	\$4,800	53.3
Private contributions	256	7.6	450	5.0
Fees charged to assisted firms	1,024	30.1	3,750	41.7
Interest income	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,394</u>	<u>100.0</u>	<u>\$9,000</u>	<u>100.0</u>

The major source of IESC funding, other than AID grants, is income generated from fees charged for services IESC provided to its clients. Although these earnings are generally a direct result of the AID grants, except in those few cases where the client paid the full cost of IESC's service, AID regards the fee income as private contributions. AID officials informed us that IESC policy is to charge its clients a fee based on their ability to pay. However, AID did not have information concerning (1) the specific criteria IESC used in establishing a client's fee, (2) the actual amount the client paid, or (3) specifically how IESC used the fee income. AID officials said that IESC does not provide this information to AID because in IESC's view it is a private, independent organization and the establishment of fees and the use of fee income are policy decisions which are the prerogative of IESC.

Many enterprises assisted by IESC appear financially capable of bearing the costs currently being subsidized by AID. For example, 34.4 percent of the firms assisted had an annual sales volume of over \$1 million. Because the income earned from fees charged by IESC is (1) a result of the earlier AID grants and (2) directly related to the need for future grants from AID, we believe that if AID continues to finance IESC activities, it should take a more active role in insuring that fees charged are adequate and that the income derived from those fees is used to further the purposes of the grant.

IESC programs versus  
AID priorities

As previously stated, the Congress has indicated that AID should emphasize focusing on those functional sectors which directly deal with the problems of the poorest majority in developing countries. AID stated that IESC projects respond to this directive by helping to create additional employment opportunities in developing countries. We noted that projects are largely oriented toward industry, and this may limit the practical extent to which the program can be directed to the poor. AID's justification for the IESC grant apparently is based on a strategy of development, anticipating that by providing top level technical and managerial assistance to industrial firms, income will be generated and employment opportunities opened up which will ultimately benefit the poor in the developing countries.

Although AID informed us that the grant to IESC helps generate new employment opportunities, AID was unable to provide any information which would indicate that IESC projects either directly or indirectly benefited the poorest

majority in the developing countries. IESC states that, of the 4,465 projects undertaken during the first 10 years of operation, 96 percent were entirely successful and less than 2 percent were failures. While we do not question IESC success rate statistics, we note that project success was not measured in terms of the number of new jobs generated.

The following are examples of recent IESC projects which, in our opinion, had little direct impact on the poorest majority in the countries assisted.

--IESC assisted a Brazilian insurance company expand its casualty and life insurance market system so that it could operate outside the state through associated broker organizations.

--A Colombian bank, with 50 branches in major cities throughout the country, requested an IESC consultant to evaluate and make recommendations concerning its foreign banking operations.

--A Peruvian holding company, which imports most of the food imported into Peru, raises cattle and other crops, and operates the largest chain of supermarkets in Peru, requested assistance from IESC to start a margarine production line.

--An Indonesian foreign exchange bank requested IESC assistance in modernizing its banking system and establishing a training course for senior staff members.

--A Hong Kong department store owner requested that an IESC volunteer be provided to train his son in modern retail methods.

#### Compensation of principal officers

AID officials responsible for awarding and monitoring the IESC grant stated that, although they do not officially know the salary levels of IESC officers, unofficially they do know that it is IESC policy to set the salaries of the president and the executive vice president at the same level as the Administrator of AID--currently \$44,600 per annum.

#### OPPORTUNITIES INDUSTRIALIZATION CENTERS INTERNATIONAL

Opportunities Industrialization Centers, Inc., was founded in Philadelphia in 1964 as a self-help project to

train unemployed or underemployed blacks in the United States and to place them in jobs. With the apparent success of the program in the United States, various African leaders expressed interest in establishing a similar program in their countries.

On August 15, 1969, AID entered into a basic agreement with Opportunities Industrialization Centers, Inc., which set forth provisions for the future purchase of technical services from the contractor. Task orders and amendments to the agreement resulted in AID agreeing to finance certain job training programs in Africa and to finance a new corporate entity-- Opportunities Industrialization Centers International (OICI)-- which was formed in March 1970 to manage the international programs. The August 15, 1969, contract was transferred to the newly formed nonprofit corporation on June 15, 1970.

Except for a small general fund which comes from private donations, OICI currently is, and has been from the date it was founded, totally funded by AID. Under the terms of the basic agreement AID issued six task orders. The amounts, as amended, are as follows:

<u>Task order</u>	<u>Description</u>	<u>Amount</u>
		(thousands)
1	Philadelphia home office support; October 9, 1969, to June 30, 1975	\$1,658
2	Training program in Ghana; June 1, 1970, to June 30, 1976	1,912
3	Training program in Nigeria; June 30, 1970, to June 30, 1976	1,792
4	Training programs in Kenya and Ethiopia; July 1, 1971, to March 31, 1973	183
5	Training program in Kenya; March 1, 1973, to December 31, 1975	293
6	Training program in Ethiopia; March 1, 1973, to June 30, 1975	<u>313</u>
Total		<u>\$6,151</u>

In addition to the basic ordering agreement, AID awarded a \$146,000 contract to OICI to determine the feasibility of initiating job training programs in six African countries. This contract covered December 31, 1974, through August 31, 1975.

Program implementation  
problems

OICI program objectives appear to be in complete agreement with the goals and objectives of the Foreign Assistance Act. Implementation of the program objectives under the basic ordering agreement, however, has been plagued by poor performance, mismanagement, and administrative improprieties. Despite these problems, on June 30, 1975, AID awarded to OICI a \$850,000 support grant to finance the cost of its headquarters staff and activities in Philadelphia and its overseas program approved by AID during the period July 1, 1975, through December 31, 1975. Additional financing was promised to OICI if performance and program management improved.

Contract management and  
administrative problems

When the initial contract was awarded in 1969 it was recognized that the OICI program was new and innovative and that OICI had no previous international experience. This should have made AID particularly aware of and sensitive to the need for close contract supervision and program coordination.

As early as September 1971 AID officials were alerted to the need for close contract supervision. In an interim report the AID Auditor General pointed out that OICI's accounting system, internal control, and property records were inadequate. In December 1971 the Auditor General found that OICI had been reimbursed for numerous items which were ineligible under the contract and recommended that the contracting officer insure settlement of the amount due AID. Again in December 1972, a firm of certified public accountants issued a seven page report detailing the inadequacies of OICI's accounting system and lack of internal controls. We could find no indication that the responsible AID officials took any positive action to insure that OICI corrected the deficiencies noted in the audit reports.

In April 1973 the Auditor General became particularly concerned as the result of an interim audit and informed AID management officials that immediate consideration should be given, and corrective action taken, concerning the deficiencies observed in order to protect the Government's interests.

Again we found no indication that AID management officials took affirmative action to obtain corrective action.

In September 1973 the Auditor General reported that, despite the previous reports, OICI had made no successful effort to improve its accounting and property control systems and that it had not fully complied with several contract provisions. The audit report recommended that if action were not taken to install an acceptable system within 90 days the contracting officer should suspend further disbursement of contract funds. At about the same time, the AID officer responsible for monitoring one of the OICI projects stated in his annual evaluation report that, while some improvements were noted in OICI responsiveness, overall there had been a general disregard of contract provisions. Contract disbursements were not suspended as recommended, and in May 1975 another firm of certified public accountants reported to AID that numerous weaknesses still existed in OICI's system of internal control.

In April 1975 a former OICI employee, in a letter to AID, made 78 different--but interrelated--allegations of mismanagement and improper practices. An AID Auditor General investigation generally confirmed that the allegations were valid. In summary, the Auditor General stated that poor management was exercised over funds and people, there were instances where it appeared the facts were misrepresented on per diem claims, personal effects were shipped at U.S. Government expense, personnel performance evaluation reports were misused to terminate employees, the Philadelphia headquarters office appeared to be overstaffed, and various weaknesses still existed in the accounting system.

#### Program performance

The management and administrative problems described in the numerous audit reports undoubtedly affected OICI's ability to implement its job training programs overseas. According to AID, the success of OICI's programs has been mixed. AID officials stated that the program in Ghana was probably best implemented. This program involved (1) vocational training for unemployed or underemployed Ghanaians for which there was a labor market demand and (2) placement upon completion of training. The basic plan was the same for Nigeria, Kenya and Ethiopia, except that in Kenya more emphasis would be placed on refining entrepreneurial expertise. According to AID officials, the programs in these three countries were not successful.

Evaluation reports as early as 1972 indicated serious problems concerning the viability of OICI's programs in certain countries. With respect to Ethiopia, AID officials

stated that serious questions have been raised concerning the types of training programs proposed, the possibility of future local financial support, and the adaptability of the OICI concept in Ethiopia. In 1974 the AID mission in Kenya reported that it was substantially agreed by all responsible local participants that the Kenyan OICI program was non-productive and should be terminated.

Many of the project implementation problems experienced by OICI appear to be the result of inadequate program planning. In a contractor performance evaluation report dated July 1973, the project officer stated that, as indicated in previous evaluation reports, almost no overall planning, work schedules, or clear cut purpose existed. Consequently, all parties concerned with the project had different expectations regarding the project's overall purpose.

AID officials informed us that since November 1975 progress has been made by OICI to correct the deficiencies which had existed since 1969. The corrective actions included the replacement of the international director, the hiring of other qualified individuals, and the implementation of most of the recommendations made by an outside consulting firm.

#### Compensation of OICI employees

AID contract and grant funds are used to pay all OICI salaries, including those of its top executives. The original contract with OICI stated that salaries may not exceed OICI's established policy, which will be certified by OICI, nor may any individual salary, without approval of the contracting officer, exceed the employee's current salary or the highest annual salary received during any full year of the preceding 3 years by more than 105 percent. The contract also put a ceiling on reimbursable salaries at the top salary level of Foreign Service Class I--currently \$37,800 annually--unless prior written approval was obtained.

AID's general policy was to stipulate in contract agreements that beginning employees may not receive salary increases exceeding 5 percent of the salary earned in any single year of the preceding 3 years. The OICI contract, however, contained a 105 percent increase factor rather than the normal 5 percent factor for salary limitations. The AID Auditor General informed AID officials of this apparent contracting error in February 1970 and again in April 1973; however, the error was not corrected until June 1973. During August 1969 through April 1973 various individuals received salary increases in excess of 5 percent--in one instance about 65 percent--resulting in excess contract costs of \$90,840.

As of November 1975, OICI's salary policies had not been approved by AID. Executive salaries proposed by OICI for July 1975 through June 1976 were as follows:

<u>Position</u>	<u>Salary</u>
International director	\$32,280
Deputy director-operations office	30,740
Assistant director-finance	21,845
Assistant director-economic development and planning	21,845

#### BUDGETARY SUPPORT TO OTHER PVOs

In addition to the 3 organizations discussed above, AID provided about \$2.2 million in general budgetary support to 12 other PVOs during fiscal year 1975. (See app. III.) We did not specifically review the contractual and grant arrangements with these organizations; however, AID officials informed us that:

- Private Agencies Collaborating Together was initially almost 100-percent AID financed but that it is currently about 60-percent funded by AID.
- The cooperative associations, such as the Credit Union National Association, Cooperative League of the U.S.A., Agricultural Cooperative Development International, and National Rural Electric Cooperatives Association, are basically supported by the membership. However, the international activities of these organizations are generally AID financed, either by a specific task order to a basic ordering agreement or by a loan to a participating country. The amounts shown as general budgetary support for these organizations represent home office support related to their AID-financed activities overseas.

According to the Advisory Committee report on Voluntary Foreign Aid for calendar year 1974--the most recent data available--the International Eye Foundation had income of \$703,630, of which \$120,000 was reported as excess Government property and \$254,269 was from Government contracts and grants. Private contributions and other income were reported to be \$329,361. The Foundation told us, however, that the \$120,000 was not excess Government property but was the value of property received from private sources. Therefore, private contributions and other income should have been reported as \$449,361, or about 60 percent of the Foundation's available resources.

Volunteers for International Technical Assistance reported to the Advisory Committee that it had income of \$665,953, of which \$319,321 was from Government contracts and grants and \$346,632 was from private contributions or other income. However, we noted that the Advisory Committee's 1974 report listed only \$174,420 rather than \$319,321, as having come from Government contracts or grants. The report included \$144,901 received from Government agencies as private contributions.

#### CONCLUSIONS

AID justified its request for funds to provide general budgetary support to PVOs by stating that PVOs receive the bulk of their funds from private contributions but to meet operational costs they need some help from AID. AID stated that only partial support would be given to supplement the nongovernmental source of development assistance, and that budgetary support would be given only to those PVOs whose basic program purpose is in harmony with Foreign Assistance Act objectives.

Despite AID assertions, we found that 80 percent of the budgetary support funds were given to only three organizations which were largely U.S. Government funded. Furthermore, the program objectives of the two organizations which received most of the budgetary support funds did not focus on the functional sectors which directly deal with the problems of the poorest majority in developing countries.

With respect to the OICI contracts and grants, we believe that AID management officials should have acted earlier to require that OICI correct deficiencies identified by auditors, inspectors, and project evaluators to insure that contract funds would be properly used and that the projects would be effective. In our opinion, failure of AID to take affirmative action was compounded by the fact that early evidence showed that the OICI programs were inadequately planned and implemented.

#### RECOMMENDATIONS

We recommend that the Administrator of AID fully inform the Congress concerning:

- The relationship between the amount of AID support to a PVO and the amount received from private contributions and other income.

--The specific nature of the programs of PVOs receiving general budgetary support and specifically which groups of individuals in the developing countries are benefiting from AID support.

We also recommend that the Administrator of AID direct that management officials fully consider evaluation and audit reports before extending or awarding a new grant or contract.

## CHAPTER 4

### AID'S NEW APPROACH TO DEALING WITH PVOS

Traditionally, PVOS have been more active in overseas relief programs than in economic development activities. Many PVOS, however, indicated that they wished to apply their overseas experience to a broad range of development activities. In April 1974 AID and the PVO community began developing a new approach to the programing and financing of PVO activities using two new grant mechanisms--the development program grant and the operational program grant.

About \$10.5 million of fiscal year 1975 funds were initially earmarked for these programs, and for fiscal year 1976 AID reserved \$15 million for this purpose. AID indicated that PVO interest in these new programs has far outstripped available resources.

#### DEVELOPMENT PROGRAM GRANTS

This grant concept was designed to take advantage of the overseas humanitarian experience of certain PVOS and to help them improve their capacity to plan, formulate, manage, and evaluate economic development programs and projects consistent with foreign assistance objectives. With this improved capacity in economic development, PVOS would be more capable of undertaking economic development programs.

During fiscal year 1975 AID awarded 24 grants of this type totaling about \$5 million. The average grant was about \$200,000. AID requested \$5.6 million for fiscal year 1976, \$2.4 million for the transition quarter, and \$8.8 million is proposed for fiscal year 1977, of which about \$3 million would be for new development program grants. AID estimates that by the end of fiscal year 1976 approximately 30 to 40 PVOS will have received this type of assistance.

The relatively small grants are given to the selected PVOS for a period of 3 years to help them improve economic development program capability. The types of costs paid by the grants are for salaries and other personnel benefits, travel, consultants, and office supplies and equipment. Our review indicated that as a general rule, about 50 percent of the grant funds were budgeted to pay salaries and benefits of individuals to be hired by a PVO with the objective of building the economic assistance capacity.

According to AID, after the end of the 3-year period PVOs must be able to carry on the improved capacity without AID assistance. AID said that there may be some instances after the end of the 3-year period where it would continue to finance the PVOs' headquarters planning and managing functions, but such instances should be rare. AID officials informed us that it is not their intention to have PVOs build up dependence upon AID as a result of these grants.

#### Eligibility requirements

AID guidelines state that in considering requests for development program grants, AID will assess whether the applicants' organizations have the solid potential of developing, within a reasonable period, the managerial competence and methods required to plan and execute programs. PVOs applying for grants are required to specifically identify their basic strategies and probable target countries.

AID awarded development program grants to organizations which had been in the overseas humanitarian relief business for many years and which AID had dealt with extensively in the past--such as Catholic Relief Services and CARE. AID also awarded grants to organizations which were relatively new, had practically no overseas experience, and which AID had never done business with. AID said that, within the limited funds available, any PVO which presents a grant proposal complying with the guidelines promulgated by AID may be eligible to apply for a development program grant.

AID's eligibility requirements for awarding individual grants were generally adequate. However, AID had not resolved other basic questions concerning this new program.

--AID had not established criteria to determine the optimum number and types of organizations to receive the grants. For example, when is the saturation point reached, or does AID plan to continue developing PVO planning and management capability indefinitely?

--AID had not established criteria to judge the PVOs' potential fund raising capability. AID expects that after the period of the grant PVOs will carry on with their own funds; therefore, it is essential that measurements be established to determine, before awarding the grant, whether the PVO is capable of generating sufficient donations to maintain and use the capacity developed.

--AID had not determined whether or not PVOs will be expected to develop projects which are designed in relation to AID's approved country Development Assistance Program and existing sector assessments or whether the newly developed planning and implementing capacity should be used to develop projects which may be of interest to the PVO and the participating country although not necessarily within the overall AID development plan.

#### PVO selection process

AID's review procedures for selecting the individual PVOs to receive development program grants were generally adequate. AID required the following information from each PVO applying for a grant.

- A description of the PVO's objectives, principal activities, and organization, including information on whether it is affiliated with another organization.
- Information on the members of the board of directors including their role in program review and approval.
- Information on the number of employees assigned to headquarters and overseas locations.
- The PVO's annual budget showing total administrative and program costs, including a certified financial statement.

AID said it did not request information concerning PVOs' executive salary levels, unless grant funds were to be used to pay executive salaries. In those cases, AID established the equivalent compensation of Foreign Service Class I--currently \$37,800--as the maximum annual salary reimbursable from grant funds. We noted only one instance where salaries paid from grant funds came near the maximum level.

Before awarding grants to a PVO with which it had not had a previous relationship, AID requested the Auditor General to assist in performing a preaward survey to determine (1) the reasonableness of proposed costs, (2) adequacy of the accounting system, (3) financial capability, and (4) management capability. In our opinion, the preaward survey reports generally provided adequate information for AID management officials to judge the financial management capability of the PVO.

The selection process appeared generally adequate. However, on June 30, 1975, AID awarded a \$200,000 grant to a PVO despite preaward survey findings. The preaward survey found that the organization (1) had a less than adequate accounting system to record and segregate costs under a Government grant, (2) was, according to the certified financial statements, insolvent, and (3) had never managed a program of the proposed size in the past. AID decided to award the grant on the basis that (1) an advance of funds from AID would solve the PVO's working capital problems and (2) the PVO had assured AID that it would perform. AID further justified the grant by stating that

"\* \* \*over the past several years [the PVO had] developed a proven strategy whereby a country's efficiency and effectiveness in achieving development goals can be increased through the institutionalization of a Joint Program Planning and Development Process."

The grant has not been in effect long enough to evaluate its success, and consequently we do not necessarily question the PVO's assertion that its program planning strategy will be effective. We do question, however, AID's justification statement that the PVO had a "proven strategy," when the PVO had only been operating for about 2 years at the time the grant was awarded.

#### OPERATIONAL PROGRAM GRANTS

The operational program grant concept was created to stimulate greater direct PVO involvement in planning and implementing projects which concentrate on basic development problems affecting the poor. Project proposals are prepared by the PVO, in consultation with the appropriate AID missions overseas and the geographic bureaus in Washington, and submitted to the appropriate AID bureau for approval. According to AID guidelines, the project proposals should include (1) an analysis of which groups will benefit from the project, (2) a statement concerning the technology to be used, (3) a plan for institutionalizing the activity with domestic resources, (4) an implementation and evaluation plan, and (5) a financial plan for the entire life of the project showing all sources of funds.

To be eligible for an operational program grant, a PVO must satisfy AID that it has the managerial competence in planning and carrying out development assistance programs, and that it will provide acceptable accountability over grant funds.

During fiscal year 1975 AID awarded 38 operational program grants valued at about \$6.2 million. Eighteen of the grants, representing about 55 percent of the funds, were awarded to either the Catholic Relief Services or CARE.

Our review of selected grants awarded to the Catholic Relief Services and CARE indicated that AID's procedures for evaluating the PVOs' proposals were adequate to insure that the projects would benefit a target population at the lower end of the economic scale. We found that the projects were coordinated with AID missions overseas and geographic bureaus in Washington to insure compliance with the overall country program.

With respect to the Catholic Relief Services, we noted that the funds were to be used for direct project costs, and, in the case of one grant agreement, AID's contribution would not exceed 60 percent of the total village project cost. Catholic Relief Services' funds were to be used to cover all home office costs, and project beneficiaries were to contribute the remaining project costs. With regard to CARE, we noted that AID had incorporated a similar financial arrangement in the grant agreement. In one instance AID's total contribution was to consist of 30 percent of the project cost with the remainder being contributed by the recipient country--41 percent--the Peace Corps--15 percent--and CARE--14 percent.

Although the individual grant proposals appeared to be adequately evaluated by AID and were for projects in harmony with the Foreign Assistance Act, we believe that there are basic questions which should be addressed by AID concerning the implementation of this concept.

Current procedures state that each AID bureau is responsible for evaluating proposals in its geographic or functional area based on its own criteria. The bureau approving the grant must use its own allotment of funds from the applicable appropriation account to finance the grant, and PVOs must compete with other programs or projects for funds.

AID has not established standard and consistent criteria to be applied by all AID bureaus in approving operational program grants. This will continue to confuse PVOs. Furthermore, it appears that AID's approach to this concept, which is designed to get PVOs more involved in economic development programs, may result in PVO participation remaining peripheral to the main AID economic development program. For example,

AID indicated that operational program grants totaling \$11.5 million were planned for fiscal year 1976, \$4.6 million for the transition quarter, and \$16.9 million for fiscal year 1977. It appears that if AID intends to more extensively use PVOs to carry out foreign assistance objectives it must integrate PVOs into its initial planning and programming process and work with PVOs in planning project proposals to insure that the projects support the approved development assistance programs.

#### INDEPENDENCE VERSUS ACCOUNTABILITY

One of the underlying assumptions of AID's new approach to using PVOs was that both the development and operational program grants would help the voluntary agencies strengthen or redirect their efforts toward more development-oriented concerns. As a result, the total volume of resources--Government and private--committed to development in less developed countries would be meaningfully increased.

When AID initiated the new grant programs, PVOs gained the impression that the grants would be provided so that PVOs could carry out their own programs in their own way. PVOs expected to operate relatively independently of AID, without becoming involved with AID's bureaucratic and operational problems. However, this expectation has not been completely realized, and PVOs have expressed concern over the lack of independence granted by AID. Specifically, PVOs are concerned about the relevance of some of AID's project design requirements, the seemingly extensive project review procedures, differences in instructions received from AID headquarters and field missions, the requirement for prior AID approval of international travel and of all subgrants initiated by PVOs, and the review of overhead costs.

The issue of how independently private groups should operate in carrying out their own initiatives with Government funds is complex. Some of the concerns expressed by PVOs are undoubtedly valid, and certain individuals within AID have stated that a need exists for greater flexibility in project documentation and monitoring. They stated that a consistent and streamlined system of regulations and procedures should be used by all bureaus.

We agree that a focal point is needed within AID for coordinating AID's wide-ranging relationships with PVOs and that standard criteria should be followed by each AID bureau in evaluating and approving PVO projects. We believe, however, that a proliferation of projects initiated by PVOs in areas that may be only marginally related to the overall country strategy and the approved development assistance program for a particular country would not be the most effective use of foreign assistance funds.

## CONCLUSIONS

In our opinion, AID's program to help PVOs expand their development capability can have long-term benefits if it results in increased private donations and more efficient use of both private and Government funds. AID stated that although the program is new, there have already been notable accomplishments by some PVOs. We believe that it is still too early to evaluate the success of the program; however, to achieve the desired results from the program, AID must insure that PVOs have the basic managerial and financial resources to benefit from the grants.

While AID's procedures for evaluating an individual PVO's eligibility for receiving a development program grant appear to be generally adequate, we believe that AID should establish criteria for determining the optimum number of PVOs to receive such grants. In addition, specific criteria should be developed to judge the PVOs' potential fund raising capability and insure that they can maintain and use the capacity with their own funds after the grant period.

AID has not developed standard criteria to be applied by each bureau in evaluating proposals from PVOs for the operational program grants. In our opinion, until standard criteria are developed and a focal point established within AID for coordinating all its activities with PVOs, management of such programs will remain fragmented. In addition, we believe that to gain the maximum benefit from this program, AID should consider and, if appropriate, consult with PVOs during the process of preparing country development assistance programs and other development strategy papers to insure close alignment of the PVO proposals with the overall development strategy for a country.

## MATTERS FOR CONSIDERATION BY THE SUBCOMMITTEE

The Subcommittee may wish to review and evaluate with AID the new approach to involving PVOs in economic development programs. Several problems have surfaced which generally center around one issue being debated among AID officials and members of the private organization community; that is, the degree of independence the private groups should have in carrying out their own programs with Government financing. The Subcommittee may wish to explore this issue with AID considering such questions as:

- Should PVOs be forced to conform to AID's project design system and priorities?
- To what degree should PVOs be held accountable for the expenditure of grant funds?
- Would centralized management within AID for overseeing the wide variety of programs and relationships with PVOs result in more effective use of the private groups and more efficient management within AID or would it dilute the management control currently exercised by the regional and functional bureaus within AID?

## CHAPTER 5

### SCOPE OF REVIEW

Our review was directed toward evaluating how AID uses PVOs in carrying out foreign assistance programs through contracts and grants. Although we obtained information concerning the programs related to PVO registration with the Advisory Committee on Voluntary Foreign Aid, our review did not include an evaluation of AID's management of these programs.

We reviewed AID policies and procedures related to the award of contracts and grants, examined numerous documents concerning AID's management of the contract and grant programs, and held discussions with AID officials in Washington. We also reviewed PVO proposals and program data available at AID.

EXCERPT FROM SENATE HEARINGS, BEFORE A SUBCOMMITTEE  
OF THE COMMITTEE ON APPROPRIATIONS, ON  
FOREIGN ASSISTANCE AND RELATED PROGRAMS  
APPROPRIATIONS, FISCAL YEAR 1976

APRIL 17, 1975

Senator INOUE. As you know, Mr. Fasick, this subcommittee has oversight responsibilities of a full range of activities involved in foreign assistance and some of these activities are being carried out by so-called voluntary or private organizations and nongovernmental.

Frankly, we don't have the detailed information about the operations which I feel is necessary if this committee is to carry out in proper fashion this oversight responsibility.

So I would like to take this opportunity to officially ask you to make timely reviews on three separate topics. One is AID financed university contracts. There are many throughout the land.

Second, AID's use of private consultants and advisers.

And, third, AID's relationship to and practices of private and voluntary organizations. I realize this is a broad one.

I have given the staff, our committee staff, instructions as to the nature of these reviews and I will ask them to meet with appropriate officials on your staff to work out the specific areas to be covered and the timing of the report.

Mr. FASICK. We can do that, and I think all three areas are significant and warrant studies.

Senator INOUE. I think it is very important because here again it doesn't help when one receives a nameless letter or rumors suggesting that certain universities have a contract because of pressure and that university wasn't really qualified or had an inadequate staff to carry out the project. We would like to know what the truth is.

Mr. FASICK. All right, thank you.

Senator INOUE. There is a personal side to that request. As chairman of a subcommittee, I suppose there are some who may feel that I may use that position to enhance the position of Hawaiian enterprises and the University of Hawaii I know has a couple of contracts with AID. I would like you to look specifically into those to determine whether these contracts are good and whether the University of Hawaii is carrying out its part and giving the taxpayers their money's worth.

Mr. FASICK. Very good, sir. (Underscoring added.)

## APPENDIX II

## APPENDIX II

PVOs RECEIVING AID CONTRACTS  
AND GRANTS DURING FISCAL YEAR 1975

PVOs included in AID's report (note a)	Amount reported by AID (note a)	Amount per AID's records (note b)
(thousands)		
<b>Registered PVOs:</b>		
ACCION International	\$ 100	\$ 100
American Foundation for Overseas Blind	156	177
American Freedom from Hunger Foundation	160	160
American Institute for Free Labor Development	5,615	5,726
American Near East Refugee Aid	576	576
American ORT Federation	365	528
Asian-American Free Labor Institute	2,837	2,837
Catholic Relief Services	3,048	2,166
Children's Medical Relief International	682	712
Church World Service	25	23
Save the Children Federation/Community Development foundation	380	386
Cooperative for American Relief Everywhere, Inc. (CARE)	5,342	3,516
Coordination in Development	425	4.5
Foundation for the Peoples of South Pacific	67	67
Heifer Project International, Inc.	152	152
International Eye Foundation	381	381
International Rescue Committee	625	543
International Voluntary Services, Inc.	1,291	817
Lutheran World Relief	126	126
Meals for Millions Foundation	143	143
Medical Assistance Programs	175	175
National Association of the Partners of the Alliance	500	500
Near East Foundation	2,515	2,187
The Pathfinder Fund	2,835	2,965
People-to-People Health Foundation (Project Hope)	3,200	2,450
Project Concern	230	230
Seventh-day Adventist Welfare Service	160	40
Travelers Aid--International Social Service of America	6	6
Volunteers for International Technical Assistance	190	190
World Education, Inc.	736	736
World Vision Relief Organization	490	490
The National Board of Y.M.C.A.s	455	455
Subtotal	<u>\$33,988</u>	<u>\$30,005</u>
<b>Nonregistered PVOs:</b>		
African American Scholars Council	\$ 300	\$ 400
Africare	425	425
Agricultural Cooperative Development International	1,325	1,251
American Council of Voluntary Agencies for Foreign Service	233	233
American Hospital Association	96	96
American Medical Association	473	473
American National Red Cross	1,825	1,825
American Public Health Association	1,491	2,008
The Asia Foundation	3,935	3,917
The Asia Society	601	601
Association for Voluntary Sterilization	1,850	1,850
Brazilian Association of the Partners of the Americas	7	24
Christian Relief Committee	100	100
Cooperative League of the U.S.A.	754	757
Credit Union National Association	660	603
Dental Health International	84	84
Foundation for Cooperative Housing Service	869	1,201
Friends for All Children	30	30
FUNDL (National Development Foundation-Nicaragua)	75	75
Girl Guide Association of Thailand	41	41
IMKA/YMCA--Indonesia	29	30
Institute for International Development, Inc.	100	100
Institute of Public Administration	124	284
Institutional Development Economic Affairs Services	75	75
Inter-American Literacy Foundation	164	164
International Committee of the Red Cross	7,000	7,000
International Cooperative Housing Development Association	20	20

## APPENDIX II

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PVOs: included in AID's report (note a)	Amount report by AID (note a)	Amount per AID's records (note b)
(thousands)		
Nonregistered PVOs: (continued)		
International Executive Service Corps	\$ 4,102	\$ 4,300
International Planned Parenthood Federation	8,000	9,263
Latin American Confederation of Credit Unions	447	447
The Latin American Development Corporation	17	17
Latin American Scholarship Program of American Universities	2,300	3,387
League for International Food Education	321	300
Missions Amistad-Paraguay	30	30
National Association for Foreign Student Affairs	195	230
National Council of Negro Women	170	270
National Education Association of the U.S.	128	128
National Rural Electric Cooperative Association	817	317
National Savings and Loan League	1,108	1,109
Opportunities Industrialization Centers International	2,055	2,140
Overseas Development Council	146	146
Overseas Education Fund of the League of Women Voters	475	436
Planned Parenthood Association, Chicago area	100	100
Planned Parenthood Federation of America	2,750	2,750
Planned Parenthood of Metropolitan Washington, D.C.	136	136
Planning Assistance, Inc.	200	200
Private Agencies Collaborating Together	465	465
Society for International Development	41	43
Taiz Cooperative Association--Yemen	100	100
Technoserve, Inc.	270	270
Volunteer Development Corps	175	175
The Working Boys Center Foundation	250	250
World Rehabilitation Fund	207	146
Subtotal	<u>\$47,684</u>	<u>\$50,822</u>
Subtotal of Registered and Nonregistered PVOs	<u>\$81,672</u>	<u>\$89,827</u>
Organizations not included in AID's report (note c):		
The African-American Institute		\$ 4,414
The Airlie Foundation		1,236
Agricultural Development Council, Inc.		475
Black Women's Community Development Foundation		35
International Confederation of Midwives		250
International Statistical Institute		1,700
Meridian House Foundation		708
American Fund for Czechoslovak Refugees		5
Tolstoy Foundation, Inc.		5
Population Council		750
American Association for the Advancement of Science		171
Salvation Army		6
Subtotal		<u>\$ 9,755</u>
Total	<u>\$81,672</u>	<u>\$90,582</u>

a/"Report of Fiscal Year 1975 AID-Financed Support for Private and Voluntary Organizations" prepared by AID's Office of Private and Voluntary Cooperation, included in the record of Hearings Before a Subcommittee on Appropriations, House of Representatives, on foreign assistance and related agency appropriations for 1976, part 3, pages 822 to 826.

b/Amounts shown in this column were compiled from (1) contract files, (2) contract summary cards, (3) monthly activity reports of AID headquarters contracts and grants, and (4) in four instances where information from these sources was not available the amount shown in the report cited in note (a) was used. In numerous instances amounts from these sources differed substantially. The amount stated in this column is the amount which appears to be the most complete; however, because of the way AID records are maintained, we cannot be sure that any single amount is not grossly over or understated.

c/These organizations appear to be PVOs, however, see pages 1 and 6 of the report for a discussion of the problem of defining a PVO.

PVOS RECEIVING GENERAL BUDGET SUPPORT,  
FISCAL YEARS 1975-76

<u>Organization</u>	<u>Actual</u> <u>1975</u>	<u>Proposed</u> <u>1976 and</u> <u>5th quarter</u>
(thousands)		
International Executive Service Corps	\$ 4,300	\$ 5,000
The Asia Foundation	3,750	5,000
Opportunities Industrialization Centers International (note a)	947	600
Private Agencies Collaborating Together	465	650
Credit Union National Association	283	425
Cooperative League of the U.S.A.	299	250
International Eye Foundation	220	250
Agricultural Cooperation Development International	200	240
Volunteers for International Technical Assistance	190	220
National Rural Electric Cooperatives Association	179	225
Volunteer Development Corps	100	300
Institute for International Development, Inc.	100	200
Technoserve, Inc.	90	186
The National Board of Y.M.C.A.s	55	-
Africare	4	-
International Voluntary Services	-	350
Total	<u>\$11,182</u>	<u>\$13,896</u>

a/This is a specific support grant financed from the education and human resources appropriation account; however, it is essentially general budgetary support.