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R. S. and J. C.
Boston, January 30, 1996

PARTNERSHIPS FOR DEVELOPMENT: USAID AND PVO/NGO RELATIONSHIPS

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INTRODUCTION

This report reviews the relationship between the United States Agency for International Develop (USAID), US private voluntary development agencies (PVOs)[1], and developing country non-government organizations (NGOs) through an examination of USAID policies and practices over the last five years. The study includes USAID funding of social and economic development programs through PVOs and NGOs. It does not include disaster relief funding or AID's extensive food aid program which also rely on civil society organizations for their implementation.

Data was gathered from USAID officials, senior staff of PVOs, government documents, and a report commissioned by the PVO community. The scope of the study did not permit comprehensive data collection; therefore bias may be introduced by the selection of materials and individuals surveyed. Similarly, the study relied on existing USAID statistics that did not allow us to dis-aggregate the data on some critical dimensions. Most importantly, we could not determine levels of indirect funding that flow through US PVOs to Southern NGOs.

CHARACTERISTICS OF USAID-PVO/NGO RELATIONSHIPS

The US Government has been funding US PVOs since the end of World War II when they were officially recognized as legitimate actors in the delivery of official American foreign aid. Initially the government funded PVO relief and rehabilitation programs during and after the war. Since then, the amount of public funding to US PVOs has grown steadily to the point where it represents nearly 40% of total PVO funding from all sources. Today, it is estimated that slightly less than one-third of USAID development assistance funds, 27.7%, passes through PVOs. There is now discussion of increasing this amount. At the 1995 Social Summit in Copenhagen, Vice President Gore stated that the United States "would seek to channel up to 40 percent of its assistance to poor countries through private aid and charity groups that have demonstrated greater efficiency than many international organizations including the United Nations."[2]

This growing reliance on US PVOs has been accompanied by a shift in PVO activities from providing short term relief to planning and implementing long-term development

projects. Due to this change, the relationship between USAID and the PVO community has become more collaborative over the last twenty years. Changes in development approaches and USAID goals also brought a new player into the picture, local NGOs who are now occupying a greater role in the development process.

The USAID resources that are made available to PVOs and NGOs come from programs administered by USAID/Washington (including Central and Regional Bureaus) and USAID field missions. In order to be eligible for receipt of public funds for international development purposes, US voluntary organizations must be registered with USAID, and meet the "privateness requirement," by obtaining at least 20% of their revenues for international programs from non-US Government sources. This requirement is not applied to local NGOs.

PVO registration is handled by the Office of Private and Voluntary Cooperation (PVC) in the Bureau for Humanitarian Response. As of October 1, 1994, 419 PVOs were registered with USAID, including cooperatives, credit unions, labor institutes, civic institutions, & non-profit relief & development agencies.[3]

Funding Mechanisms

USAID provides funds to PVOs through three basic mechanisms: program grants, cooperative agreements and contracts. Program grants provide the majority of funding from country missions. They enable registered PVOs to carry out their own field projects consistent with the country program strategies of individual field missions or regional bureaus. Program grants, the most flexible from the PVO point of view, vest implementation responsibility solely with the PVO. They are usually multi-year in duration and require "cost sharing" by the PVO. In cooperative agreements USAID holds a "substantial involvement" in certain areas of program decision making. Contracts are instruments for procuring goods and services in support of USAID's own programs. USAID exerts most decision-making control through this mechanism.[4]

Regional bureaus (based in Washington) and several central offices also provide funds to PVOs. Centrally funded activities are relatively small and only represent a small percentage of total USAID assistance channeled through PVOs. The Office of Private Voluntary Cooperation (PVC) is important to PVOs since it is mandated to promote and strengthen PVOs and their NGO partners development contributions. It administers six development grants programs including the Matching Grants Program (MGP) which supports PVO and NGO "institutional strengthening."[5] Matching Grants are highly competitive awards made to PVOs based on their demonstrated capability to implement successful sustainable development activities and to raise funds privately. These grants require a 50% cash match cost sharing.

The USAID-PVO Relationship in Perspective

Centrally administered funds tend to flow to relatively few, large, well organized PVOs who often have considerable clout with the US Congress that protects funds for their programs. Recently, USAID has launched an "outreach" program as it becomes more sensitive to the concentration of public funds in a small number of

organizations,[6] and is increasingly interested in expanding society-to-society linkages through like-minded organizations such as those with ethnic ties to areas it now serves. Similarly, PVC is now considering extending its partnership to domestic NGOs that primarily serve the poor and disenfranchised in the United States.

A recent study released by USAID's Center for Development Information and Evaluation (CDIE), "Strengthening the Public-Private Partnership: An Assessment of USAID's Management of PVO/NGO Activities," found the biggest problem with the Agency's partnership with PVOs and NGOs is its inconsistent management of grants and cooperative agreements. The study attributed the inconsistency primarily to the failure of USAID staff to apply partnership principles. Most USAID mission officers make little distinction among the three funding mechanisms treating all largely like contracts and thus instruments of control.[7]

USAID's registration process is a lengthy, complex affair, that must be maintained yearly through the submission of documents including audited financial statements, annual report, annual budget, tax registration status and privateness percentage reports. Though it is difficult for PVOs, it has its greatest impact on local NGOs who are either put off by the process or cannot meet the stringent requirements. The CDIE study found NGOs particularly have a difficult time meeting USAID's accounting and financial management requirements.[8]

FUNDING TRENDS

US PVO Funding

In 1994, US PVOs received nearly $1.7 billion from the US Government in the form of grants, contracts, US Government owned excess property, ocean freight subsidies, and P.L. 480 donated money. This figure represents nearly 40% of all funding that PVOs receive, and so is significant to their programs and organizational stability.

Table I shows a five year summary of funding from central bureaus and field missions to US PVOs broken down by four sectors: Democracy, Environment, Population and Economic Growth. Total funding to PVOs in these areas has generally been rising from $346 million in 1991 to $440.1 million in 1995. Proportionately, economic development program funding at 64% is the largest sector. The other 36% is divided among Population (17%), Democracy (10%), and Environment (9%) programs.

Major growth in this period is in Democracy program funding which increased by 559% ($13.5 to $89 million); followed by Population programs growth of 54% ($52.4 to $80.6 million). Economic Growth programs stayed the same at about $235 million over the five year period. Environment fell by 14% from $42 to $36 million.

Table II shows funding changes in the economic development sector by program type. There are minimal declines in education and health (1% and 7% respectively). Education changed from $25.9 million in 1991, to $25.6 million in 1995, and health from $96.9 to $90.2 million. However there was a 44% decline in agriculture from $57 to $31.7 million accompanied by an increase of 50% in "other" economic development activities from $58 to $87.3 million. Other activities include funding for telecommunications, transportation, financial investment and business development. Over the five year period agriculture programming accounts for 20% of all funds channeled to PVOs for economic growth: education, 12%; health, 44% and other, 24%

Local NGO Funding

USAID direct funding to local NGOs has grown between 1991 and 1995 by 40% from $184 to $307.8 million. Table III shows the regional priorities of AID programming and the Global Bureau in Washington over this five year period.[9] Since 1992, African NGOs have been receiving the majority of USAID funding (35% overall in the five year period) followed by Latin American and the Caribbean (LAC) with 27%; and Asia Near East (ANE) with 18% of total funds. The Europe/Newly Independent States (ENI) region received only 2% of all funding to NGOs. The Global Bureau which funds any region accounts for about 17% of total funding.

In 1995 the total amount of funding to Africa has fallen to 1993 levels while it has increased in all other regions and through the Global bureau. This trend reflects a changed regional focus in USAID's development strategy accompanied by mission closings, most of which were in Africa.

The proportion of direct funding to NGOs and PVOs has changed slightly over the five year period. In 1991 NGOs received 30% of combined funding of $496 million to both NGOs and PVOs. In 1992 that proportion rose to 35.5%, and has been fairly steady through 1995. In 1995 combined funding to PVOs and NGOs reached $675.5 million. Total funding to NGOs is under-represented in these figures, however, since we do not have a breakdown of indirect funding going to NGOs through PVOs.

USAID-PVO PARTNERSHIP

Over the last 5 years USAID's relationship with PVOs has undergone a major transformation. In the past the USAID-PVO relationship has been a difficult one. Differing views over official development assistance policy and the role accorded to PVOs in implementation created a relationship characterized by periods of tension and ill will combined with relative calm and collaboration. USAID's relatively cumbersome, arbitrary set of regulations and procedures also made the relationship a problematic one.[10] Today, however, the USAID-PVO relationship is more productive,

collaborative and respectful than ever before.

A number of factors can be attributed to this closer working relationship. As the American foreign assistance program and USAID have come under increasing attack from Congress and been beset by budget cuts, USAID has found a strong ally in the voluntary sector, particularly in US PVOs. Second, the realities of development in the post-cold war have also caused USAID to put into practice fundamental development principles that PVOs believe more accurately reflect American values, decreasing the cultural and philosophical differences between PVOs and USAID. Third, the Advisory Committee on Voluntary Foreign Aid (ACVFA) which was created in 1946 to serve as a link between the US Government and PVOs has developed into a "non-partisan" body capable of mediating differences between USAID and the PVO community. It has played a critical role in the redirection of the US foreign assistance program, making recommendations to the USAID administrator on the direction and content of that program. Finally, the leadership and policies of the Clinton Administration have played an essential role in the change in relations between USAID and PVOs. USAID's administrator believes in an expanded role for civil society organizations in the foreign assistance program. He and his staff actively involve PVOs in dialogue and consultation at all levels of the Agency, in a variety of public fora, and in written policy.[11]

Policies for Partnership

A priority of the new Clinton administration was to identify policy principles that could be the basis for drafting a new USAID policy statement on the USAID-PVO partnership. In 1993 a joint task force was established by USAID and InterAction, the consortium of international development agencies, to undertake this study. Many of the Task Force findings and recommendations were published in a report, "Policies for a More Effective Partnership," that addressed three sets of policy issues: I) program focus, balance and direction; ii) administrative systems and procedures; iii) new and innovative funding mechanisms. The report concluded that the relationship between USAID and the PVO community can be deepened through a structured process of dialogue and consultation. It emphasized institutional capacity building for PVOs and NGOs as an essential component of development and the growing importance and ability of local NGOs. It also noted that the effectiveness of USAID and PVO performance is reduced by the current registration, procurement, grant negotiation and oversight system.[12]

The findings of "Policies for a More Effective Partnership" were adopted and important elements were incorporated into a new PVO policy document, "USAID-USPVO Partnership Policy Guidance," effective April 12, 1995. It revised a 1982 policy to reflect the changed development context of the 1990s and the new relationship that has developed between USAID and PVOs. Acknowledging the changed global circumstances of the past decade, the document stresses the need to forge a new consensus on foreign assistance promoting sustainability and humanitarian assistance, and the need for a public and private partnership in the delivery of foreign assistance. PVOs are portrayed as USAID's "natural partners" in a reconstituted foreign assistance program.[13]

USAID's revised policies also reflect another major shift that has occurred in the international development community -- the changing relationship with local or Southern NGOs. There is general agreement within the US international development community that the days of active, operational PVOs delivering services at the grassroots level in Southern countries are over. The current administration's foreign assistance policy, rooted in strengthening democratic systems and open market economies requires strong private voluntary sectors (civil societies) as well. The emerging role of PVOs is, therefore, to promote and facilitate the growth of local civil society and voluntary action. USAID's policy emphasizes that US PVOs can help the Agency capitalize on the growing role, importance and capacity of local NGOs by creating effective partnerships and taking on a capacity building role. It also states that USAID "shall facilitate the provision of direct assistance to local NGOs to strengthen their capacity and support their development activities."[14]

This new emphasis on working with local NGOs is reflected in the 1996 Guidelines for the Matching Grants Program. One of the four major objectives listed in the Guidelines is "to build the capacity of local non-governmental and community-based organizations through formal, structured relationships with US PVOs."[15]

USAID is also more effectively funding NGOs through an increasingly-used program grant commonly known as an "umbrella project." Through this grant mechanism USAID is able to provide financial resources to a number of agencies through one funding obligation. The PVO grant recipient acts as an intermediary between USAID and a community of eligible PVOs and NGOs. It provides a combination of training, technical and financial grant assistance. This "umbrella" decreases USAID's overall management burden during a time of budget constraints. The principal beneficiaries of the umbrella project are NGOs who are able to receive funding without being registered with USAID. The intermediary also buffers NGOs from the myriad of USAID regulations and procedures by, for example, developing user-friendly guidelines on how to comply.

The umbrella project is generally used in countries in which the local NGO sector is not yet mature and NGOs have little capacity to manage the rigors of USAID requirements. The principal purpose of the grant is to build individual NGO capacity as well as the NGO sector as a whole. NGOs can receive technical and training assistance directly from the PVO umbrella manager or through sub-grants that support the NGO's activities.[16] Funding flows through umbrella organizations such as PACT, World Learning, and World Education which are large, established PVOs that have management and administrative skills. They identify, select, fund and monitor the NGOs they work with and are held accountable to the US government. They also provide training and technical assistance to NGOs either through their own staff or contracts with others. The type of NGO funding mechanisms used varies with the region: Africa is primarily through sub-grants, in Asia through co-financing. There is little umbrella funding in Latin America.

Policies for Extending USAID-NGO Relationships

Direct funding and support of local NGOs has become a major part of USAID development policy. In March 1994, USAID's policy, "Strategies for Sustainable Development" addressed five strategic and global concerns: democracy building, population growth, environmental protection, economic growth and humanitarian assistance. The document explains that the aim of all USAID's programs will be to build local capacity, enhance participation, and encourage accountability, transparency, decentralization, and the empowerment of communities and individuals. It makes clear that the ability of USAID and US PVOs to work unhindered with local NGOs and other local civic actors is a fundamental criteria for a country's receipt of official development assistance. These policies are consistent with US foreign assistance objectives of promoting democratic pluralism and the overall belief that sustainable development can only be achieved through harnessing the talents, skills & resources of the private sector, both the voluntary and for-profit alike.

The evolution of US AID's relationship with US PVOs and local NGOs is most evident in the New Partnerships Initiative (NPI) which was announced by Vice President Gore at the Summit for Social Development. NPI is an attempt by USAID to make local capacity building a central concern across all Agency programs. The overall goal of the program is to achieve long term sustainable development objectives and accelerate the graduation of host countries from US government assistance by building local institutional capacity, involving grassroots actors in the development process, and enhancing national enabling environments. Strengthening of civil society and helping to restructure the relationships between states and civil societies is seen as critical to this process.[17]

This program not only targets local NGOs supporting sustainable development objectives, however. It also seeks expansion of linkages and associations among small business partnerships, and democratic local governments. It also seeks to be an instrument of USAID's "reengineering" effort that is intended to reorient the agency toward client responsiveness and achievement of results.

NPI acknowledges the collaborative working relationship between USAID and US PVOs, and stresses the importance of building better development partnerships by highlighting management reforms and building new partners across borders and across sectors at the local level. The approach challenges PVOs and NGOs to become more results-oriented.

Though NPI is official agency policy that has the full backing of the administrator, it originates from a central bureau in Washington. It has not yet been adopted by field missions which have considerable autonomy in their country strategies and programs so it is too early to tell what the impact of NPI will be.

PVO PERSPECTIVES ON USAID POLICIES AND PRACTICE

Members of the US PVO community attribute USAID trends toward civil society capacity building and funding of Southern NGOs to the leadership of Brian Atwood. Atwood is perceived to be providing stability to USAID at a time when support is not

coming from other areas of the government. The administration's push to increase the funding of US PVOs to 40% is also seen as a direct response to the concerns of the US PVO community as a constituency.

PVOs perceive that USAID's recognition of the importance of civil society is a positive trend for the future. They believe the NGO empowerment component of NPI is valuable to USAID and an important tool for developing a constituency for foreign assistance.

Though the US PVO community is generally positive about the changes the current administration is implementing, many feel the changes are occurring at the level of rhetoric and policy, not operationally in the field. People are aware it takes time to implement change at the grassroots level particularly when dealing with an entrenched, decentralized bureaucracy which operates at multiple levels with a diverse community of PVOs and local NGOs. However, the general consensus is that personal inclinations of field mission staff continue to define the relationship that exists between USAID and PVOs/NGOs in the field. Since 95% of USAID funding is programmed through field missions, control of US AID-PVO/NGO relationships is with the mission director.

US PVOs also feel that tension between the Washington central offices and the field missions is another barrier to implementing change. The field missions often feel the central bureaus, especially the Global Bureau, have no concept of what is happening at the local level, especially when they perceive that many of the "new initiatives" being announced are already in practice in the field. One PVO member commented in relation to the NPI, that people working at the grassroots level don't appreciate sectoral policy reform, and that the NPI policy document is not strong enough to transform USAID culture. They feel it is likely to be viewed by the field missions as just one more thing coming from a Washington office.

Though there is a lot of discussion at USAID about direct funding of local NGOs, PVOs feel this is not happening in the field.[18]

PVOs feel the umbrella mechanism is beneficial to USAID because the agency is not equipped to provide monitoring and training of NGOs. Because umbrella implementors are equipped with staff to perform these functions they often can take more risks in working with NGOs than USAID is able to handle. This is particularly important when working with newly developing NGOs and NGO sectors. Though NGOs benefit from the umbrella mechanism, US PVO umbrella managers sense that the local NGOs they work with would like to work directly with USAID. However, they feel the buffer they provide between local NGOs and USAID is an important service. USAID is a notoriously difficult donor not only because of its financial requirements, but because of its tendency to treat all relationships as contracts.

USAID's increasing use of the umbrella mechanism is viewed as a positive trend by US PVOs because in addition to funding projects, it makes assistance available for NGO institutional development which PVOs see as essential for more efficient project implementation. A number of PVOs would like to see more umbrella grants occurring.

USAID's "Strategies for Sustainable Development" that sets the program framework for the agency stresses, among other things, the goal of building local capacity to provide an ongoing stream of development benefits. Many PVOs feel that USAID needs to better define "sustainability" at the operational level. Since most PVOs accept roles in building local NGO capacity they are concerned with being evaluated on a "sustainability" dimension that, in their view, does not yet have universal definition within the Agency.

Possible Future Trends

Balancing the federal budget and reducing the United State's debt burden are priorities for the US Congress and Administration in the mid-1990s. Foreign assistance is being reduced along with domestic social programs, and so USAID funding will continue to decline in the coming years. The questions are, "by how much," and "in what program and regional areas?" Best estimates now are that the USAID FY 1996 budget will be cut by around 20%, but it could be more. PVOs can expect to compete for fewer resources even if the portion channeled through them reaches the 40% level targeted by the Clinton administration.

Certainly more missions will close, and others will be downsized. These conditions suggest the possibility of greater use of the umbrella granting mechanism where AID wants to continue to support local NGO sector work and development. On the other hand, it is also possible that USAID will rely more on "indefinite quantity contracts" (IQCs). IQCs are a mechanism by which USAID can contract short term assistance in implementing its programs. The IQC is usually considered a low-cost implementation mechanism that allows little or no programmatic input from the contractor.[19] It has historically been used with consulting firms and academe more than PVOs. PVOs worry that if forced to contract through this mechanism, their creative programmatic work and long term commitments could be diminished, if not lost altogether.

While the budget is shrinking, USAID seeks to broaden its partnerships by including local US NGOs. PVO opposition to NPI's attempt to bring domestic organizations into the international development process rests in part in financial realities, but also in part in their belief that PVOs have built essential skills and capacities for working in developing countries that local US NGOs will need to learn. For over a decade they have cooperated with USAID to build cost effective development models to reach poor communities. Many US PVOs feel it makes no sense to bring in domestic organizations who don't know anything about the developing world in a time of shrinking resources.

The importance of the PVO community as a major constituency for foreign assistance is a continuing topic of discussion in the PVO community. There is a concern that in the future, if PVOs are bypassed in favor of direct funding to NGOs, USAID will lose an important constituency and ally in its fight to preserve foreign assistance. Recently when the foreign assistance act came under attack in the Congress it was the PVO community that lobbied and fought for it. This was not the case with the move to cut the Inter-American Foundation (IAF), a government foundation that only directly funds local NGOs in Latin America. The IAF has no home based constituency that went to Congress to fight for its continuing existence,

and is quite vulnerable.

The challenge to the PVO community and USAID is to continue to educate the American public, linking domestic concerns to international issues. Many feel that the PVO community needs to make a more concerted effort to tie development assistance to national interest, to trade, to jobs. Only through educating Americans about the importance of foreign aid will there be continued support for funding international development projects and organizations.

END NOTES

1. "Private voluntary organizations" (PVOs) are defined by USAID as "tax exempt, non-profit organizations working in international development that receive some portion of their annual revenue from non-US Government sources and receive voluntary contributions of money, staff time or in-kind support from the general public.

2. As reported in the Washington Post, March 13, 1995.

3. Voluntary Foreign Aid Programs. Report of American Voluntary Agencies Engaged in Overseas Relief and Development Registered with the U.S. Agency for International Development 1995. Washington, DC: Bureau for Humanitarian Response, Office of Private and Voluntary Cooperation, USAID, 1995, p. 5.

4. Fox, Leslie, US Foreign Assistance and the Role of Private Voluntary Organizations. Washington, DC: InterAction, April, 1995. pp. 13-14.

5. In addition to the Matching Grant Program PVO administers Child Survival Grants, Development Education Program; Cooperative Development Program; Farmer to Farmer Program; Outreach Grant Program.

6. Fox, p. 16.

7. USAID Evaluation Highlights No. 50. Strengthening the Public-Private Partnership: An Assessment of USAID's Management of PVO/NGO Activities. Washington, DC: Center for Development Information and Evaluation, USAID, June 1995. p. 1.

8. USAID is streamlining the registration and annual reporting requirements.

9. None of the other central bureaus has funded local NGOs significantly during this period.

10. Fox, p. 7.

11. Fox, pp. 9-10.

12. Fox, p. 8.

13. Fox, p. 4.

14. USAID Policy Guidance. USAID-U.S. PVO Partnership. Washington, DC: USAID, April 13, 1995. p. 6.

15. FY 1996 Application Guidelines. Washington, DC: USAID, Bureau for Humanitarian Response, Office of Private and Voluntary Cooperation, Matching Grant Program. August, 1995. p. 3.

16. Fox, p. 18.

17. Core Report of the New Partners Initiative, Draft Copy. Washington, DC: USAID, July 21, 1995. pp. I-v.

18. PVO's perceptions of the magnitude of direct funding to NGOs and the reality as expressed in Table III seem to be at variance. We did not, however, have the resources to investigate this discrepancy further.

19. Some USAID staff view the IQC a high cost contracting mechanism because of the indirect costs add substantially to the contract's bottom line. They view other mechanisms such as PVC's Program Support contract which has sub-contracting authority as more cost effective.