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EVALUATION

OF

PAN AMERICAN DEVELOPMENT FOUNDATION

NATIONAL DEVELOPMENT FOUNDATION PROGRAM

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FOREWORD

In undertaking this evaluation, I was afforded the opportunity to reflect on my experience with the Inter-American Foundation (IAF) and Judith Tendler's overview of IAF's rural credit programs in 1981. What I found particularly relevant to this analysis is how closely some of IAF experiences parallels AID's and the applicability of Judith Tendler's institutional goal analysis. Although IAF does not participate directly in project design as AID does, its criteria and emphasis on the viability of the institutions has resulted in outcomes similar to that reported in the Costa Rica section. This is why I believe that a collaborative effort between AID and IAF in assisting PADF and SOLIDARIOS learn from their experiences would be beneficial to each and, more importantly, to the people their programs serve.

I would like to thank AID for giving me this learning opportunity; PADF for its cooperation in facilitating the evaluation; and the Board members and staff of the NDF's and SOLIDARIOS who patiently assisted another "gringo" conduct an evaluation.

I. BACKGROUND

This evaluation study was undertaken because the Development Programs Office of LAC/AID Washington needed to understand PADF's overall performance in working with USAID Missions under Operational Program Grants in institutionalizing national development foundations. The evaluation was considered necessary because AID officials had divergent views on PADF performance which were debated in a review of a proposal submitted by PADF to the FVA/PVC Office for a matching grant. Although the letter rejecting the PADF matching grant cites two fundamental reasons for the rejection of the proposal, interviews with AID/Washington and USAID Missions staff and a review of the AID files concerning PADF, reveal that there were also unresolved AID policy and oeprational issues involved in the analysis of the proposal. The cited reasons for the rejection of the proposal in Tom Fox's letter of May 3, 1982, to Ed Marasciulo were as follows:

1. "...the question of PADF's track record could not be answered satisfactorily either from the information provided in the proposal or from the cable responses" /from the Missions./

2. "While your proposal indicated that the program operations would be carried out in Latin America and the Caribbean, there is a preference that PADF work with national development foundations (NDF's) under a matching grant primarily in the Eastern Caribbean islands. However, the matching grant program was established to provide funding for PVC programs operating in a number of countries, usually in more than one region of the world. I am sure you will understand that a centrally-funded grant back-stopped in Washington would be in situations where there is available a better alternative, i.e. a single mission or regional office which could provide both funding /and/ backstopping."

The first reason cited is vague in that it does not specify what is meant by trackrecord, but means that the PVC office had doubts about PADF's ability to carry out the activities of the grant. One of the major reasons for this doubt was that there was a lack of documentation on PADF's role in support of the NDF's from 1973 to 1979 and AID had supported SOLIDARIOS to provide loans and technical assistance to national development foundations.

The second reason cited for the rejection is a Catch-22 formulation. PADF is being turned down because one division in AID (LAC) wants to concentrate NDF activities in the Caribbean while PVC funds projects working in more than one region in the world.

Both of the reasons cited for rejection, however, do allude to policy and operational issues involving AID decision making processes which cross bureaucratic lines of responsibility in Washington and the Missions in granting operational or matching funds. A decision to fund PADF activities under a matching grant to undertake regional expansion has significant funding implications. PADF, as a private voluntary agency, primarily depends upon AID grant funds to build local NDF's. In other words, the supply side of AID grantmaking determines to a large extent how quickly and effectively PADF can expand its institution building approach. The supply of both grants and soft loans from international sources also determines the magnitude of operations of the NDF's once they have been established. To my knowledge, no national development foundation has been able to mobilize sufficient local capital to break their dependency on international funders. The NDF's that are established and operating at a relatively large scale have received soft loans or large grants from AID, IDB and the Inter-American Foundation to capitalize loan portfolios of a sufficient magnitude to permit them to cover a major portion of their operational costs from interest revenues.

Since AID is a major funder of the start-up phase of new NDF's, PADF and the local foundations expect second and even third round funding from AID in order to reach their institutional goal of financial stability. Therefore, an expansion of NDF promotional activities has budgetary implications for AID which span several years and involve both grant-making and concessionary loans at a multi-million dollar level. Since AID directly funds SOLIDARIOS, PADF and the local NDF's, the need to agree on an appropriate funding policy among different offices is critical.

In addition to these issues, my interviews with some AID officials in Washington and in the field revealed concerns about PADF's management style in delivering technical assistance to NDF's and relationship problems with SOLIDARIOS.

In summary, AID's decision not to fund the matching grant involves unresolved issues concerning the appropriateness of PADF as a vehicle for supporting NDF's, "track record" and performance questions because of lack of documentation, operational and policy issues and the willingness and ability of AID to commit future funds in the multi-million dollar range.

As the following report shows, except for in the case of FUCODES, Costa Rica, PADF did not work extensively in establishing new NDF's during the period 1973 - 1978. Therefore, there is no additional documentation available addressing this specific issue. On the other hand, if track record means "performance-ability to carry out the activities", there are performances by various organizations, including the USAID Missions, that must be looked at and that are intertwined. First, there is the performance of PADF in promoting and establishing NDF's; secondly, there is the performance of the NDF's themselves once they have graduated beyond PADF's initial assistance; thirdly, there is the performance of SOLIDARIOS in assisting and supporting the NDF, once the NDF -- if it so chooses -- becomes a member of SOLIDARIOS, and fourthly, USAID as a program designer of NDF OPGs. Although this evaluation's main focus is PADF, by necessity it touches upon interrelationships to give a truer picture of the performance question.

It is felt that this background information is needed so that the evaluation is put in the proper context and presumably, assist AID in squarely identifying the issues raised in reviewing its funding decision.

II. SCOPE OF WORK AND METHODOLOGY

This evaluation is directed at assessing the effectiveness of the PADF in promoting and assisting the organization of National Development Foundations (NDF's) since 1973. According to the evaluation contract, special attention has been given in this assessment to:

1. Purposes and goals of PADF;
2. The role PADF plays in establishing NDF's;
3. Cost-benefit analysis of PADF program;
4. Relationship of PADF with NDF's and SOLIDARIOS;
5. Compatability of Tools for Training and Health Services Programs with NDF objectives;
6. PADF fund raising capability; and
7. Quality of technical assistance provided by PADF.

In preparing this assessment, the evaluator conducted interviews with AID/Washington officials, PADF representatives, USAID/Missions staff, representatives of SOLIDARIOS staff and board members and staff of five NDF's in Costa Rica, Belize, Jamaica, Haiti and the Dominican Republic. The evaluator also reviewed AID/Washington and Mission files concerning OPG grants to PADF in establishing the Jamaican and Haitian Development Foundations. A file review of the OPG to the Costa Rican Development Foundation (FUCODES) was also conducted to understand PADF's role in planning the proposal and in providing technical assistance to this NDF as a sub-grantee. A file review of SOLIDARIOS was undertaken to understand its relationship with PADF since 1972. A list of the persons interviewed is included as Attachment I to this report.

The field inquiry was conducted between July 6 and August 5, 1982. I spent seven days in Costa Rica attending the SOLIDARIOS Annual Meeting and conducting the field inquiry, one day in Belize, one week in Jamaica, ten days in Haiti and five days in the Dominican Republic. Prior to the visits, one week was spent in Washington interviewing AID and PADF officials and reviewing project files. After the field visits, a draft report was prepared and discussed with AID and PADF officials in order to correct factual errors, refine information and develop final recommendations.

This assessment has several limitations. First, it was undertaken rapidly with insufficient lead time to develop standards to assess performance. Secondly, only a cursory review of the literature and previous AID evaluations of similar credit programs was accomplished. Thirdly, this assessment is subject to the limitation of any rapid review of complex inter- and intra-institutional processes which cover a period of nine years.

These shortcomings were partially compensated for by my reliance on previous studies undertaken by Judith Tendler who has conducted some of the sharpest overview studies of credit programs for AID and, more recently, the Inter-American Foundation. Her analysis of conflicting institutional goals of credit programs (equity, viability and efficiency) and her understanding of how credit programs can work for informal, indigenous groups are particularly applicable to NDF experiences.* The PISCES studies for micro-enterprises were used to understand the more recent AID emphasis on credit for small businesses.** I also relied on my own experience with NDF's and other credit programs from 1972 to 1980 while I worked for the Inter-American Foundation.

To answer the seven questions mentioned earlier and in the Scope of Work of the Contract, I have re-ordered this presentation into five remaining major sections. The next section provides a historical overview of PADF up to the present. This section treats the goals and purposes of PADF and its relationship to SOLIDARIOS and NDF's. The subsequent section deals primarily with the field inquiry in the five countries visited and, as such, treats each of the applicable seven questions in the context of PADF's relationship with the local NDF. The last three sections deal with cost-benefit analysis, fund raising and my conclusions and recommendations.

* Judith Tendler - "The Trouble with Goals of Small Farmers Credit Programs (and How to Get Out of It)" - Small Farmer Credit Analytical Papers - AID Spring Review of Small Farmer Credit - Volume XIX, June 1973, No. SR113
- "Inter-Country Evaluation of Small Farmer Organizations - Final Report (Ecuador, Honduras)," November 1976 - Program Evaluation Studies - AID.
- "Fitting the Foundation Style: The Case of Rural Credit" October 1981, The Inter-American Foundation. (I participated in part of this review.)

** The PISCES Studies: "Assisting the Smallest Economic Activities of the Urban Poor" edited by Michael Farbman, September 1981, Office of Urban Development, Bureau for Science and Technology, AID.

III. HISTORICAL PERSPECTIVE

The Pan American Development Foundation was organized in 1962 as an offspring of the Alliance for Progress. While the main emphasis of the Alliance was to promote social and economic progress through the investment of large amounts of public funds, it recognized the need for private sector participation in supporting social change at the grass-roots level. Officials of the Organization of American States and prominent businessmen established the PADF to mobilize United States and Latin American businessmen to participate in social development work. United States businessmen and corporations were encouraged to provide material and cash contributions to PADF on a tax deductible basis. The PADF, as a private U.S. voluntary organization with a professional staff, in turn would assist and provide incentives to businessmen and civic leaders in Latin America and the Caribbean to organize national development foundations to support grassroots development among the poor.

From 1962 to 1964, PADF conducted surveys of both U.S. and Latin American businessmen to determine how the concept could be institutionalized in Latin America and the Caribbean. PADF was searching for a particular institutionalization process which would stimulate businesses and individuals to devote philanthropic activities to foster development objectives; improve communication between rich and poor to ameliorate social tension; provide an independent source of funds for small development projects; and, put philanthropy on a

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business-like basis. These principles were articulated by Ron Scheman who, in the early 1960's, was the first Administrative Secretary of PADF and presently occupies the post of President, chairing PADF's Executive Committee. In 1965, Ron Scheman studied the experience of Sam Greene, a retired U.S. businessman, who started the Penny Foundation in Guatemala to make small loans to highland peasant groups. Based upon an analysis of this experience, PADF incorporated the concept of providing credit to low income, informal groups as an essential goal of its institutionalization process in Latin America.

At that time, the directors of PADF believed that the concept of providing credit to low income groups would not only have special appeal to businessmen, but also be a means of capitalizing or endowing the foundations in order for them to be independent and self-sustaining. Sam Greene had demonstrated that small groups of peasants were credit-worthy without collateral except for their pledged word and solidarity in repaying the loan and using the credit work for their communities' betterment. Latin American businessmen, professional and civic leaders could capitalize on this experience and contribute to national development objectives.

In PADF's own words, their goals in establishing an NDF are: "1) the motivation and mobilization of private sector representatives to create and become diretly involved in the process of analyzing, defining, managing, and carrying out development programs for the less fortunate within their own societies. 2) The goal of establishing a sound, well managed organization, bringing to bear the Foundation's private sector members' talents in policy, management, finance, etc. 3) To identify needs, design and implement programs or projects in one or more sectors that assist and support the needy segment of the population to improve their incomes, standard of living and participation in society."

In 1966, with the concept fully developed, PADF began an aggressive campaign of promoting the organization of private sector sponsored national development foundations in Latin America. The Penny Foundation in Guatemala was restructured to incorporate local businessmen and professionals as board members and an indigenous staff was hired to run and operate the Fundación del Centavo. Simultaneously, PADF was instrumental in organizing the Fundación Dominicana de Desarrollo (FDD) in the Dominican Republic which has evolved into one of the largest NDF's in Latin America.

From 1966 to 1973 PADF could boast that its concept of mobilizing segments of the private sector in Latin America worked and worked relatively well. In this time period, PADF was instrumental in establishing the seventeen national development foundations listed on page 28.

In May 1969, Harry L. Naylor made an assessment for AID of PADF and its affiliated national foundations in the Dominican Republic, Guatemala, Ecuador, and Chile. Mr. Naylor's assessment of PADF and the four NDF's visited was laudatory. He concluded that PADF had successfully promoted the concept among businessmen and provided quality technical assistance to the NDF's staff. He stated:

> "...that despite the excellence of any foundation directorate, the entire concept of making financially responsible citizens and successful loans depends on the educational process employed in business with loan seekers at the base of the pyramid. The repayment rate, the percentage of defaulted loans, and in a larger sense, the whole process of financial responsibility is dependent upon trained foundation loan education and evaluation."

Mr. Naylor was satisfied that PADF was able to mobilize an important sector of the business community to provide matching funds and leadership in building credit institutions for low income groups in diverse countries. He was convinced that the NDF's could play a significant role in linking low income groups to the commercial banking systems by acting as their extension agents and by providing loan guarantees. He was impressed with PADF's professionalism and business approach to development and supported PADF's efforts to obtain financing from AID and IDB and to establish a guarantee program for the NDF's.

As of June 30, 1972, AID had provided PADF with $325,000 as a loan (593-L-002) and a grant of $736,230 (AID/LA-541, 674 and 677) for a total contribution of $1,061,230. Of this amount, PADF established a revolving loan fund of $877,452 and made ten sub-loans to NDF's. The remaining funds were used to cover its technical assistance and training costs and some grants for new NDF's. The sub-loans were granted at a 3-1/2% annual interest rate with a five years grace period for a term of 20 years. (Review of Program Activities 1970-76, page 2.)

AID conducted a review of PADF loan funds and technical assistance support for the NDF's in Guatemala, Honduras, Ecuador and

El Salvador (Memorandum Report No. 73-014, dated April 27, 1973). The AID review concluded that PADF and the four NDF's visited were successful in providing marginal groups isolated from commercial banking agencies with credit to engage in community improvement and productive projects. Over 98 percent of the loan programs were geared to rural groups and the NDF's visited had a negligible default rate.

Of the four NDF's visited, only the Dominican Development Foundation was able to meet a substantial portion of their administrative costs from interest income and local contributions. The evaluators further concluded that PADF had been vital to the NDF's in the early stages of formation when advice and technical assistance was most needed to begin program development and administrative operations. PADF had also played a major role in seeking out for the NDF's other sources of financing from the Inter-American Foundation and other international development institutions.

PADF had participated in conceptualizing and testing applications of the 1969 "Moss Amendment" or "Productive Guaranty Credit Program (PGCP)" under the Overseas Private Investment Corporation (OPIC). The Moss Amendment was an attempt to mobilize and redirect private, commercial credit to the bottom 40% of the population of the developing world to finance self-help programs. In 1970 and 1972, PADF signed agreements with OPIC to encourage credit institutions in Honduras, Guatemala, Panamá and Colombia to take advantage of the PGCP. Under this program, a guarantee authority of 15 million dollars was authorized to permit OPIC to guarantee twenty-five percent for each loan and/or loan portfolios of private credit institutions servicing poor clients. On April 18, 1974, PADF submitted its final report on its experience with this program concluding that: private banks were not induced by the 25% guarantee coverage to serve marginal borrowers because of cost, risk and profitability factors; and, that NDF's and other non-profit organizations, which were established for this type of lending, participated in the program not because of high cost and risk factors, but rather to secure credit from banks to increase their loan portfolio for marginal groups; and that poor people were reliable borrowers.* OPIC in late 1973 had issued instructions to PADF to stop encouraging the program.

As later described, in 1972, fourteen of the original eighteen NDF's formed a coordinating body of their own called SOLIDARIOS. Since 1974, after these evaluations were concluded, the number of NDF's originally formed with PADF assistance, some of which joined SOLIDARIOS,** changed dramatically and the early optimism of the national development foundation model has been tempered with reality. Of the 17 foundations, six (Paraguay; Chile; Bogotá, Colombia; Bolivia; Perú; and Venezuela) are no longer operational; one (Honduras) is barely functioning; three foundations (Guayaquil, Ecuador; Cali, Colombia; and San José, Costa Rica) have had serious financial and management problems; seven (Guatemala; Nicaragua; Quito, Ecuador; México; Dominican Republic; Argentina; and Trinidad

* "The Marginal Group as the Borrower," PADF, Norman Goijberg, Director of Programs, April 18, 1974.

** See Table on page 28.

and Tobago) are considered to be effective credit institutions for rural groups and, to a lesser degree, small scale urban businesses. The Salvadorean Foundation, FUNDASAL, established independently of PADF, also continues to operate credit programs.

It is now necessary to trace a significant shift in PADF's role in establishing NDF's that occurred from 1972. Up until this time, PADF had been the major spokesman and promotional and technical assistance agency for NDF's. However, beginning in 1972, the relationship between PADF and the NDF's began to change.

In October 1972, representatives of the majority of the NDF's met in Guatemala to establish their own coordinating entity which would represent them collectively before national and international entities, promote new foundations, establish general development policies, and conduct evaluations of existing programs. This entity was named SOLIDARIOS (Consejo de Fundaciones Americanas de Desarrollo, Council of American Development Foundations). Representatives of PADF and the Inter-American Foundation attended as observers. The organization of this coordinating body eventually caused a shift in the relationship and role of the PADF vis-a-vis SOLIDARIOS and some of the individual NDF's. The Latin American founders of SOLIDARIOS strongly believed that it was in their best interest to develop a new relationship with PADF, where they would take the major role for NDF representation. After considerable discussion with PADF representatives, it was decided to work out a new contract between the two entities. This contract was signed by both parties in January 1974. Under this contract, SOLIDARIOS and PADF agreed to "regulate their future relationship in response to the need for coordination to achieve an orderly transfer to the Council of the programs which the PADF has been carrying out on behalf of the National Development Foundations." PADF was assigned the role of searching for seed capital for new NDF's or foundations which had not received loans previously from PADF; providing technical assistance at the request of the foundations or SOLIDARIOS; direct assistance to any NDF under the Tools for Training, Health Services and Disaster Relief Programs of PADF; and, ad-hoc representation on financial matters or assistance for the foundations or for the Council at their request.

SOLIDARIOS reserved the right for exclusive representation of the collective activities of the foundations, coordination of reciprocal activities of its members, exchange of experiences, coordination of development policies, and the assistance to the foundations to obtain financial resources.

Both agencies agreed to keep each other informed, invite each other to their annual meetings and continue cordial relationships. The agreement, however, was short-lived since SOLIDARIOS decided to unilaterally terminate the contract in October, 1974, by a resolution adopted by its Executive Committee. A review of the correspondence between PADF and SOLIDARIOS points out several areas of misunderstanding between the two entities. Some of the members of SOLIDARIOS perceived PADF as continuing to speak for the NDF's as their sponsor and creating the image that the NDF's were dependent upon PADF's guidance and direction. Although all the SOLIDARIOS members recognized PADF's role as the promoter of the concept and the major instrument leading to the creation of the NDF's, they felt it was time for SOLIDARIOS and each of the NDF's to act independently of PADF. The members were specifically concerned about obtaining funding from European sources and did not want to continue the perception that the NDF's were an appendage of a North American foundation. This unilateral termination of the contract caused consternation on the part of the trustees and staff of the PADF. However, they accepted SOLIDARIOS' decision and understood the NDF's desires to establish clearly their separate identity as autonomous foundations and to seek funding through direct contacts.

From 1974 to 1978, PADF continued to provide sporadic assistance to NDF's, but no longer was a major promoter of new NDF's, with the exception of FUCODES in Costa Rica. It worked extensively with FUNDE of Nicaragua in housing reconstruction after the earthquake and with FUNHDESA of Honduras to assist in post-disaster programs for rural communities following a hurricane.

PADF emphasized its Tools for Training and Health Services programs which had always been separate and distinct programs from the NDF's. The Tools for Training Program has been generally focussed on vocational training to help young persons improve job skills and employment opportunities. The Health Services Program channels hospital and dental equiment to medical institutions. Some of the national foundations collaborate with PADF in channeling their resources to these institutions. However, there has been no attempt to integrate the material services programs with NDF objectives. The question of the compatibility of this program with NDF will be addressed in the field inquiry section.

In summary, a review of PADF annual statements from 1974 to 1978 shows that PADF's work with the NDF's had diminished considerably in the field of technical assistance to NDF's. SOLIDARIOS did not seek any collaboration from PADF; rather, SOLIDARIOS worked on its own institutional capacity to provide technical assistance and become the major channel and broker of resources flowing to NDF's.

From 1974 to 1981 SOLIDARIOS was able to obtain significant financial and technical assistance support for its 14 national development foundations from AID, PACT, IDB and the European Economic Community. PACT was the first major funder of SOLIDARIOS providing approximately $400,000. Subsequently AID provided SOLIDARIOS with a grant of $391,710 in October, 1977, to provide short-term technical assistance to its membership (AID/PHA-6-1197). In August, 1978, SOLIDARIOS signed another grant agreement with AID (#598-0587) for $4,000,000 to help it increase its institutional capacity to provide member foundations with: a source of credit through a revolving loan fund to support development programs and needed technical assistance for the development and implementation of projects for low income groups.

In August, 1981, AID undertook an internal evaluation of this grant (covering the period of June, 1978, through February, 1980). In preparing this evaluation, the team visited NDF's in the Dominican Republic, Guatemala, Nicaragua and Ecuador. In their summary, the evaluation team stated that "the implementation of the project appeared effective in overall terms. SOLIDARIOS had performed reasonably well in providing member foundations with the credit and technical assistance resources provided in the project."

As SOLIDARIOS became the major financial and technical arm of the established NDF's through external funding, PADF largely concentrated its activities in Disaster Relief, Tools for Training, and the Health Services Programs. When Ron Scheman assumed the presidency of PADF in mid 1977, and Michael Miller assumed the Vice Presidency, PADF moved back to its major goal of supporting development foundations. During this year, PADF began negotiating with the USAID Mission in Haiti to obtain OPG grants to begin an NDF in that country. PADF also assisted FUCODES of Costa Rica to obtain grants for its rural credit program. Ron Scheman began an attempt to improve relationships with SOLIDARIOS by having NDF representatives serve on PADF's Board of Trustees and the Executive Committee.

From 1978 to July of 1980, the relationship between the two entities continued to be strained. Some of the misunderstandings and different interpretations of roles that were the basis for SOLIDARIOS' decision to terminate the contract with PAD in 1974 persisted. Some members of SOLIDARIOS were concerned that PADF's renewed role in assisting new NDF's would revive past problems.

The two entities began discussions to transfer PADF's loan portfolio to SOLIDARIOS. However, the two entities could not agree on a formula to share decision-making. After thorough discussions in mid 1980 about the feasibility of combining the two loan programs, it was mutually agreed that it was better to leave the loan funds alone.

Despite SOLIDARIOS reluctance to re-establish formal relationships with PADF, Ron Scheman continued to explore possibilities of improving communication and making PADF responsive to SOLIDARIOS concerns. He was concerned that some of the criticism lodged by members of SOLIDARIOS had merit. In particular, he was concerned that PADF had moved away from its original goals and purposes in supporting loans and credit to low income groups. In June, 1980, Ron Scheman wrote an open letter to PADF Trustees' relative to these concerns and the appointment of a new Executive Vice President to replace Mr. Michael Miller, who resigned because of policy differences with Mr. Scheman. The following is quoted from this letter:

> "The programs of the Foundation in the last several years have virtually ignored the goals of loans and credit to low-income groups and moved more into the passive type of activity, sending equipment and hospitals to institutions in Latin America and the Caribbean. We have participated only marginally in the National Development Foundation activities...."
>
> "Before we proceed to select a new Executive Vice-President, the Board must decide, as a matter of policy, where it wants to place its emphasis. We cannot continue to confuse quantity in dollar volume with quality and substance. Sending more and more material to the countries of Latin America does not make us an important institution or help us achieve our unique goals. The question is: For what purpose are we sending the material goods? In the past, material goods were always provided as a supplemental incentive to the private sector of the countries to motivate them to form their own national foundation and to hold them over while they were perfecting local fund raising techniques. Today the Foundation's goods are sent to any organization which is willing to pay the price of transportation--a function any foundation can perform. Indeed it puts PADF in unnecessary competition with other private voluntary organizations. On the other hand, no other foundation can play the role of support to SOLIDARIOS, private national foundations and the private sector in general as well as we can."

"It is therefore my strong recommendation that development activities remain our top priority and major focus. To understand the implications of this, it would be necessary to identify the key elements that will make a difference in the Foundation's development program. I submit that these are:

1. To do everything possible to reinstate our relationship with the Council of National Foundations of Latin America (SOLIDARIOS) and, if possible, to represent SOLIDARIOS in the United States."

"2. To channel more of our other activities through the National Development Foundations to motivate the local private sector to support loan programs for low-income groups."

"3. To seek imaginative new ways to build new sources of loan funding for the new National Development Foundations and to supplement funding for special projects of existing National Development Foundations."

"4. To establish a network of communications with the United States to take advantage of our linkage to the OAS and help tell the story of the National Development Foundations and promote better understanding between private sectors of the U.S., Latin America and the Caribbean...."

"The alternatives to this policy would be to continue routine charity-type programs whereby the National Development Foundations have a relatively minor role and the relationship with SOLIDARIOS is virtually non-existent. Moreover, there have been serious questions raised as to whether we are properly staffed to evaluate potential requests of our material donations--or their use--without the aid of the National Development Foundations. I seriously question whether we can justify the existence of our Foundation on just more and more dollars of material goods unrelated to a development philosophy or goal, with no mechanism for follow-up."

"Thus it is incumbent upon the Board to make its decision regarding the policy and program direction of the Foundation. There is an overwhelming need for our unique role in the private sector development field as attested by the increasing attention being paid by AID and the Inter-American Development Bank to the institutions that the PADF created in the last 10 years. Our major efforts should be devoted to assisting in the formation and nurturing of National Development Foundations in which we motivate the local private sector to take

> an active and involved role in the development activities of their country. We should also continue to be a model pioneering new and imaginative ways to tap private know-how in the development needs of our hemisphere."

Based upon a favorable resolution of this policy question, PADF has begun a process of re-emphasizing its original goals and purposes of supporting the national development foundations and building a new working relationship with SOLIDARIOS. At the SOLIDARIOS annual meeting in July, 1980, held in Miami, PADF representatives met with the Executive Committee of SOLIDARIOS to discuss relationship problems and lay the basis for coordination between the two entities. At this meeting an informal understanding was reached.

PADF reaffirmed its intention of primarily being responsible for the establishment of new NDF's in Latin America and the Caribbean. Priority would be given to the Caribbean region. In the process of promoting and establishing the new NDF's, PADF would encourage them to join SOLIDARIOS and in meeting the membership requirement of this coordinating body. Once the new institution decided to join SOLIDARIOS and was accepted as a member, PADF's role in the institutionalization process would diminish and SOLIDARIOS would assume its normal role of providing the NDF with technical and financial assistance. The autonomy of each institution within this informal framework of coordination would be respected to avoid misunderstandings and institutional conflicts of the past.

Despite this understanding in principle, a level of institutional tension between SOLIDARIOS and PADF remains. The mutual understanding reached in Miami has been difficult to operationalize because the two entities have overlapping responsibilities and have not worked out a form of coordination or omplementarity in fund raising. Nevertheless, the relationship between the two institutions has improved considerably and both parties are looking for ways to improve them in the future without jeopardizing their autonomy or separate identities. SOLIDARIOS recognizes that PADF can play a major role in promoting new NDF's because of its unique relationship with the OAS, its commitment to the concept and the stature and influence of its Board of Trustees. In an interview with Enrique Fernàndez, the Secretary General of SOLIDARIOS, he emphasized these points and also outlined some of the policy differences which make coordination difficult. First, SOLIDARIOS believes that new NDF's should emphasize group lending rather than loans to individuals. This emphasis is based upon the original concept of Sam Greene in the rural area, its relative success among the major NDF's and SOLIDARIOS' view that credit is a means of promoting cohesion among rural poor so that they can become active participants in changing their social and economic environment for their own betterment. It is also based upon the experience of the NDF's which have been able to work out an acceptable cost of lending ratio.

SOLIDARIOS' emphasis on group lending closely parallels AID and PADF rural development policies during the 1960's and 1970's. As will be shown later, the present difference over group or individual lending is based upon the fact that the institutional development models being promoted in the Caribbean region by PADF have emphasized supporting micro-businesses in cities and towns. PADF made this shift in emphasis in order to obtain funds from USAID Missions which, since 1979, have begun to place more and more emphasis on small scale, urban businesses. Because of the nature of small business lending, PADF supports group lending later in the institutionalization process. This issue will be further explored in the field inquiry section.

Secondly, SOLIDARIOS believes in a more evolutionary, learn by doing, methodology in developing new NDF's while PADF's approach emphasizes a more rapid development by obtaining significant financial and technical inputs at the beginning of the institutionalization process. Concomittantly, SOLIDARIOS favors a more cautious approach to be taken by PADF in promoting the concept in several countries simultaneously, while PADF has chosen to promote several foundations at once. Note that the expansion of SOLIDARIOS membership base is not dependent upon PADF's promotional role. PADF views the matter of SOLIDARIOS' membership as a matter entirely between the new NDF's and SOLIDARIOS. Other foundations with a different genesis and views on the involvement of the private sector, but with similar program goals such as, the Centro para el Desarrollo Social y Económico (DESEC) of Bolivia and the Instituto de Promoción Económico Social del Uruguay (IPRU), have become active members of SOLIDARIOS. PADF views its role as the establishment of new foundations and that of serving its members. However, in certain cases, such as that of FUNDE, Nicaragua, PADF has collaborated with an established foundation in a specific program. SOLIDARIOS of its own, has never promoted or established an NDF or similar organization.

Thirdly, SOLIDARIOS is protective of its independence and is perplexed by PADF's annual reports and other material which, in my opinion, can give the impression that the degree of collaboration and interdependency of the two agencies and PADF's support to established NDF's is larger than currently is the case. The fact that the two institutions have not agreed upon a mutually acceptable formula of fund raising in the United States and resource allocation mechanism to the NDF's for the monies obtained by PADF, further complicates the relationship.

PADF has sought to improve coordination with SOLIDARIOS in its recent expansion of NDF activities. The expansion includes the recent establishment of the Jamaican National Development Foundation, with a USAID/OPG (November 1981); the legal incorporation of foundations in the Bahamas and Dominica in November 1981; the promotion of NDF's in Belize, St. Lucia, St. Vincent, Barbados and Honduras (San Pedro Sula); and the provision of advisory services to a Panamanian private foundation and the Turcos and Caicos Development Trust which were organized independently of PADF.

In conjunction with this expansion, PADF and SOLIDARIOS jointly sponsored a fund raising seminar for new and established NDF's. United Way provided the materials and training staff for this seminar which was held in May, 1982, in Washington, D.C. In a March, 1982, seminar entitled "National Development Foundations, Concepts and Structures," the Secretary General of SOLIDARIOS made a presentation on the objectives and operations of SOLIDARIOS. The seminar also included a discussion of the respective roles of the two entities and a recommendation that these roles be more clearly defined. Several more seminars are planned during 1982 to facilitate interchange among new and established NDF's with SOLIDARIOS' participation.

In summary, the new relationship among SOLIDARIOS, PADF and new and established NDF's is still in a transitional stage and the outcome cannot be accurately forecasted. After the first draft of this report was submitted, PADF shared with me an exchange of correspondence initiated by PADF between its Executive Vice President and the Secretary General of SOLIDARIOS which began in April and will culminate in a meeting between committee members of both Boards in November, 1982. This exchange and the planned meeting shows that both entities are prepared to confront the issues that separate them and search for ways to improve their relationship and better serve both new and established NDF's. However, it is possible that history will repeat itself and the level of institutional rivalry could become acute. Nevertheless, if both entities continue to openly debate the issues and look for ways to learn from the past, the new efforts launched by PADF to promote NDF's can be undertaken effectively according to the terms of the mutual understanding reached in Miami in 1980.

PADF's new efforts involve the promotion of new NDF's throughout the Caribbean and some Latin American countries. However, the field inquiry is limited to reviewing the process in Costa Rica, Haiti, Jamaica and Belize. The Dominican Republic was also visited to understand PADF's role with the Fundación Dominicana de Desarrollo as an established NDF; to gain some insight of this foundation's evolution and its recent experience with small business credit programs.

NDF's ESTABLISHED BY PADF 1962 - 1972

		Date of Incorporation
1.	GUATEMALA - Fundacion del Centavo (FUNDACEN)	1963 *
2.	DOMINICAN REPUBLIC - Fundación Dominicana de Desarrollo (FDD)	1965 *
3.	CHILE - Fundación para el Proceso Económico y Social (FUPRES)	1968 * **
4.	COLOMBIA - Bogotá - Fundación Colombiana de Desarrollo (FUNCOLDE)	1968 *
5.	ECUADOR - Guayaquil - Fundación Ecuatoriana de Desarrollo (FED) - Zona Sur	1968
6.	ECUADOR - Quito - Fundación Ecuatoriana de Desarrollo (FED) - Zona Norte	1968 *
7.	MEXICO - Fundación Mexicana para el Desarrollo Rural (FMDR)	1969 *
8.	HONDURAS - Fundación Hondureña de Desarrollo (FUNHDESA)	1969 *
9.	VENEZUELA - Fundación Venezolana para el Desarrollo de Actividades Socio-Económicas (FUNDASE)	1969 **
10.	ARGENTINA - Fundación Argentina de Desarrollo (FAD)	1970
11.	NICARAGUA - Fundación Nicaragüense de Desarrollo (FUNDE)	1970 *
12.	TRINIDAD AND TOBAGO - Trinidad and Tobago Development Foundation (TTDF)	1970
13.	BOLIVIA - Bolivian Development Foundation (PROMONECO)	1971 * ** ***
14.	PARAGUAY - Paraguayan Development Foundation	1971 * ** ***
15.	PERU - Peruvian Development Association	1971 * ** ***
16.	COLOMBIA - Cali - Fundación de Desarrollo (FUNDES)	1972 *
17.	COSTA RICA - Fundación Costarricense de Desarrollo (FUCODES)	1972 *

PADF also provided assistance to the Fundación Salvadoreña de Desarrollo y Vivienda Mínima (FUNDASAL) which was organized independently by a priest and local businessmen in San Salvador.*

* Were charter members of SOLIDARIOS, when organization formed in 1972.
** No longer operating.
*** A review of PADF documents did not provide names in Spanish.

IV. FIELD INQUIRY

COSTA RICA

Role of PADF in Establishing FUCODES

In 1972, with the promotional assistance of PADF, a group of business leaders and representatives of a number of development organizations, formed a steering committee for the purpose of initiating philanthropical and development activities. One of the first activities, for example, was the importation of hospital equipment made available by PADF.*

PADF continued to provide material support services to the committee over the next two years. In October, 1974, a technical assistance agreement was signed between PADF and an informal association established by the committee called Fundación Costarricense de Desarrollo (FUCODES). PADF assisted FUCODES in its search for external cash donations and loans and in its local fund raising campaigns. Finally, all of these efforts culminated in 1976 with the legal establishment of FUCODES as a national development foundation.

During 1976, PADF obtained a grant of $26,375 from Private Agencies Collaborating Together (PACT), a consortium of primarily U.S. private voluntary agencies which receive most of its revenues from AID/PVC. This small grant allowed the Board of Directors of FUCODES to hire a full-time executive director, a businessman who had worked with the steering committee, and a small team of promoters. It, also,

* The total cumulative direct value of PADF assistance to FUCODES through 1979 was $152,457. (This amount does not include the USAID/OPG nor the $10,000 soft loan.) - 1979 PADF Annual Report.

permitted PADF to continue to assist FUCODES in its search for additional external grants and loans; in local fund raising activities and membership drives; and in its attempt to learn from the experience of other NDF's, especially FUNDE of Nicaragua, through informal interchanges and visits.

By May, 1978, FUCODES had received a total of $99,261 from PACT to support operational costs and fund raising activities. PACT also provided an additional $37,110 to PADF to provide consultancy services to FUCODES and arrange for staff interchanges with other NDF's. FUCODES had been able to capitalize a revolving loan fund of about $55,000. Of this amount, SOLIDARIOS provided a loan of $30,000; IAF a grant of $15,000; and PADF a loan of $10,000 (20 year term, 5 year grace period, at 3-1/2% annual interest rate).*

This support enabled FUCODES to begin a credit program concentrated on forming groups of poor coastal laborers and fishermen in the Guanacaste area. It made 17 loans to these groups totalling $52,000 at a 7% annual interest rate. Although it did not have a serious default problem at the time, 14 of the loans were in arrears. FUCODES was dependent on external support, primarily PACT, to cover approximately two-thirds of its operational costs.

During 1978, FUCODES with PADF assistance, began to negotiate with USAID/Costa Rica to obtain an operational program grant (OPG). The original pre-proposals submitted to USAID with PADF assistance requested grant monies ranging from $50,000 to $170,000 with counterpart funding of about $70,000.

* "Proposal Justification and Summary" - May 1978.

The record does not clearly show why the early modest proposals prepared by FUCODES with PADF assistance were transformed into the final OPG grant of $489,600 to the FUCODES Rural Credit Program in September, 1978. However, it does show that USAID joined FUCODES and PADF as a major project designer, utilizing logical framework analysis to substantiate its support.

The Operational Program Grant (OPG)

The purposes of the OPG were to strengthen FUCODES as a development agency by capitalizing a revolving loan fund and by providing funds to improve its managerial and operational effectiveness. With this increased institutional capacity FUCODES was to provide technical, organizational, and credit assistance to low income groups to undertake small-scale productive enterprises. FUCODES was to concentrate its rural credit program in regions with high incidence of poverty. It was anticipated that within 3-1/2 years FUCODES would have provided loans to 144 groups reaching 1,150 direct beneficiaries. The overall goal was to improve the income of the beneficiaries and give them an opportunity to become aware of their economic and social rights in society. The original OPG budget programmed the following resources:

AID	$ 489,600
FUCODES	116,500
OTHER	216,400
TOTAL	$ 822,500

As will be seen later, FUCODES failed to meet its institutional and social and economic goals from the beginning because, according to four* of the five external evaluations that took place between May, 1979, and May, 1982, it didn't have and couldn't develop the managerial capacity at all levels, including the Board of Directors, to undertake the overambitious rural credit and development program.

PADF Role, Relationships and Performance Under OPG

PADF signed two agreements with FUCODES to assist it under the USAID OPG in January, 1979, and 1980, respectively. Under the first agreement, PADF was paid $6,490 as a sub-grantee to provide professional services to FUCODES in fund raising and in elaborating project proposals to assist it obtain its total counterpart contributions. In 1979, PADF assistance was limited to helping FUCODES design projects to support the expansion of women's small businesses

* --The Development GAP - "Analysis of FUCODES, San José, Costa Rica" prepared for SOLIDARIOS, Santo Domingo, Dominican Republic - May 1979.
--The Development GAP - "Report on Follow-up Visit to FUCODES, San José, Costa Rica" prepared for SOLIDARIOS, Santo Domingo, Dominican Republic - June 1979.
--Mission Report to The Consortium for Community Self-Help (CCSH), New York, U.S.A. - Related to a Survey on the Activities of the "Fundación Costarricense de Desarrollo" (FUCODES), San José, Costa Rica" - submitted by Uri Eshed, Rural Development Expert, January 1981, Rehovot, Israel.
--"FUCODES Rural Credit OPG - Final Evaluation Review" by GAMCO, Inc., May 1982. (This report is the most comprehensive of the evaluations reviewed and has been used extensively in this section.)

and small fishing enterprises. A PADF representative made two visits to Costa Rica for this purpose and provided about 18 days of consulting services. The contract programmed 12 days of consultancy services in Washington. The exact nature of the consultancy services provided in 1979 is not clear from a review of the files, nor from the interviews conducted since they were of a general advisory nature and mostly consisted of assisting FUCODES' attempt to obtain funds from international donors, primarily PACT.

The January 1, 1980, agreement states that "PADF agrees to provide professional services to FUCODES in fund raising, project and program proposals, and other areas of need as expressed by FUCODES. In the performance of these services, PADF will provide one full-time resident consultant to FUCODES. PADF will also provide support through senior staff working in Costa Rica and the U.S...." The one-year contract was for a total of $21,400 to be paid in four quarterly payments the first of January, April, July, and October. At year end, adjustments would be made to reflect any payable or receivable balances.

The full-time resident consultant mentioned in the contract was a young economist who worked for FUCODES as a Peace Corps volunteer during 1978 and as a paid staff member during 1979. FUCODES selected the Peace Corps volunteer as their foreign advisor because he was a known quantity, had assisted in preparing the proposals for the OPG, and had worked himself into the position of acting as an assistant to the Director of FUCODES. He had helped establish the loan procedures, the rural and fishing credit programs and worked with the promoters in the field.

PADF accepted the FUCODES recommendation and put the ex-volunteer on their payroll. PADF also had used his services in 1979 to provide technical assistance to the Haitian Development Foundation. From my interviews and the documentation, his role continued much the same as it was previously while he was on the FUCODES payroll. He continued to analyze credit feasibility studies, prepare project proposals for international sources and to assist FUCODES' top management in general administrative and financial matters.

His role as a full-time PADF resident consultant was short-lived.* He was terminated by FUCODES in September 30, 1980, because he had entered into conflict with FUCODES when he accused the President and the Executive Director of mismanagement and alleged misuse of funds. Based upon his reports and USAID's own misgivings concerning the FUCODES program, disbursements were suspended until a ROCAP audit showed no serious misappropriations. USAID, also, requested that PADF's Washington officials meet with the resident consultant to discuss these accusations and assist FUCODES to resolve them. After these consultations were held in Miami at the July, 1980, SOLIDARIOS meeting, PADF decided not to intervene.

* PADF letter from Lewis Townsend dated November 28, 1980, to Carlos Poza, USAID/Costa Rica.

The USAID official, who is responsible for monitoring FUCODES and who is a member of its Board of Directors, advised me that he was not satisfied with PADF's short-term general advisory services, since some of the visits by PADF's former Executive Vice President dealt with matters extraneous to the FUCODES programs. This was also confirmed by another Board Member. FUCODES has, so far, refused to pay the balance of $3,660.37 of PADF's bill of $18,172.87 for its services from January 1 through November 18, 1980, and projected expenses to December, 1980. (Projected expenses include $1,787.49 to pay for the full-time consultant who was continued on the PADF payroll for a few more months after he left FUCODES.)

PADF advisory assistance in fund raising was not successful. The OPG programmed $332,900 as counterpart funding. Of this amount $216,400 was to be obtained from other international donors and $116,500 from a) the sale of coins, b) local donations, and c) interest earning from loans. Although based on successful experiences in Guatemala and the Dominican Republic, the coin program, in hindsight, was a premature and risky fund raising venture for an inexperienced NDF. By May, 1979, FUCODES had borrowed $88,000* from local banks to purchase coins; however, it resulted in a net loss due to sporadic sales, late deliveries from the overseas supplier and a 400% devaluation of the Colón. Local donations have been diminishing and cover about 23% of monthly operating expenses which have been reduced to 60,000 Colones (about US$1,500). Interest

* The Development GAP - "Analysis of FUCODES, San José, Costa Rica" prepared for SOLIDARIOS, Santo Domingo, República Dominicana, May 1979 (Annex E).

earnings on the loan fund were negligible. The only significant international input is a $200,000 loan from SOLIDARIOS which has not been disbursed.*

While PADF was providing consulting services in fund raising, members of its staff were negotiating with FUCODES over the disposition of a fishing boat made available to PADF under USAID's excess property program.** These discussions concerned utilizing a fishing vessel, the Searcher, for artisan fishing groups and as an income producing venture for FUCODES and PADF. According to FUCODES, PADF made a verbal commitment to transfer the vessel to it at a cost of $30,000, later upped to $40,000.*** According to PADF, when FUCODES and PADF were unable to reach a mutually satisfactory arrangement for the use of the boat in the income producing venture, the project was dropped. PADF then decided to transfer the Searcher to the University of Costa Rica for a training and research program in exchange for $30,000 to cover USAID, dock, maintenance, appraisal and indirect costs to PADF. The resident consultant working for FUCODES served as the initial intermediary between PADF/Washington Office and the University to arrange this transfer. Since FUCODES perceived PADF as breaking a verbal agreement because of this transaction, communication between the two entities was further exacerbated and FUCODES Board Members to this day are hesitant about renewing relationships with PADF. This is the only known case in PADF's

* "FUCODES Rural Credit OPG - Final Evaluation Review" by GAMCO, Inc. May 1982 (pages 17 and 18).

** In 1978, USAID/Costa Rica validated PADF's Costa Rican country program under Section 216 FAA on the basis of its relationship to FUCODES in order to qualify PADF for ocean freight subsidies.

*** June 13, 1980, letter from Ricardo Rojas, FUCODES, to L. Ronald Scheman, PADF.

nine-year relationship with FUCODES that its material services programs interfered with its institutional program purposes. In hindsight, given FUCODES' problems as a development agency and its deteriorating financial situation, the decision not to transfer the Searcher to FUCODES was correct.

In summary, PADF made several errors in its support of FUCODES during 1979 and 1980. First, its acceptance of the FUCODES recommendation that the resident consultant be a present staff member who had no previous experience in an advisory role. Secondly, PADF did not understand the magnitude of FUCODES' problems until it was too late. Thirdly, the Searcher incident only served to add to the confusion. In my opinion, PADF's performance under the OPG as a subgrantee was not satisfactory. However, its performance under the OPG is less significant when compared to the error that was involved in planning the OPG with USAID/Costa Rica prior to its implementation.

Analysis of the OPG Experience

The most obvious error was the grant designers' failure to relate the amount of financial assistance and counterpart funding goals to FUCODES' previous experience in credit programs and local fund raising campaigns. While the OPG did recognize the need to upgrade FUCODES' managerial and promotional capabilities, it did not take into account what a 300% increase in the credit program would do to the struggling organization. It also did not adequately consider the limited professional and managerial competence in the field of development of FUCODES' executives to carry out such an ambitious and rapid program of expansion involving: number of personnel, amount of equipment, use of consultants, local and international fund raising efforts, effective linkages with other technical groups. The OPG provided "too much, too soon," and the resulting demands upon FUCODES to perform were more than its institutional capacity could deliver. This possibility was certainly apparent in both the Instituto Interamericano de Ciencias Agricolas (IICA) and USAID assessments made before the OPG approval. The four evaluative reports referred to earlier have provided sufficient evidence that the OPG was overly ambitious in relation to FUCODES' ability to achieve project objectives.

In terms of the institutional strengthening purposes of the OPG, <u>two</u> major confusions exist in relationship to the accumulated experience of the relatively successful NDF's. The first is derived from FUCODES pre-OPG emphasis of promoting groups with the <u>cooperative</u> model of development as the ultimate aim. Considerable evidence exists that the successful NDF's (FMDR, FUNDE, FDD, and FUNDACEN) <u>resisted</u> the tendency to impose this model on local rural and urban groups. The second problem concerns the simultaneous pursuit of the institutional objectives of equity, efficiency and viability. Judith Tendler addresses both of these issues in AID sponsored evaluations of rural credit programs and in her latest assessment of the Inter-American Foundation projects. In these evaluations, she has made a persuasive case for rural credit programs which build upon indigenous forms of organization and avoid the complexities of

* The USAID Mission approved a second OPG, based upon a positive evaluation, which was about to be signed at the point in time where the disbursements for the first OPG were suspended. The second OPG for a women in development program was never implemented.

the cooperative model, if the overall goal is to reach the poorer population (the bottom 40% of the income distribution scale). She further argues that the institutional objectives of equity, efficiency and viability are not exclusive or incompatible; however, priority cannot be given to all three at the same time.

For example, if the credit institution's priority is productive efficiency, then the problem of repayments or defaults will be solved by paying due attention to the successful application of a profitable technology. However, emphasis on efficiency can cause the lending institution to select the more established farmer or entrepreneur at the expense of an institutional equity concern for the "poorest of the poor." This inherent equity-efficiency problem also has a direct bearing on the issue of institutional viability. A soft stand on defaults, or a subsidized interest rate, must be avoided if the credit organization's viability is the main concern. Yet, what does such a policy do in terms of the equity issues?* The solution to this problem becomes one of establishing a trade-off among the conflicting institutional goals since program emphasis on any one of them may require a significant compromise of another,

* In most Latin American countries subsidized interest rates from public sector rural credit institutions have become a measure of their commitment to the principles of equity and social justice. Whether poor farmers can pay market interest rates or higher is academic since the arguments usually do not address the issue of social responsibility. Since NDF's compete with public sector institutions, they are reluctant to charge interest rates that are above the subsidized rates. ("Fitting the Foundation Style: The Case of Rural Credit" - Judith Tendler, October 1981- The Inter-American Foundation - page 32).

or a redesign of the program which will cause less damage to the compromised goal. This formula is further complicated when participatory social processes are also an institutional goal.*

Using Judy Tendler's institutional goal model of analysis helps to clarify the FUCODES experience. At first, FUCODES simultaneously tried to address the concern of economic efficiency, participatory social processes and equity by forming groups of poor coastal laborers and part-time fishermen to obtain credit to apply a productive technology (boats, outboard motors, nets, etc.) to their economic activity. From an economic efficiency point of view, FUCODES assumed that the problem of defaults and repayments would be resolved by applying this productive technology. It also assumed that a government institution, COOPE-PEZ, would provide marketing support for the fishermen groups. However, as often is the case, this support never materialized. The equity and participatory process goals were joined and addressed by its concern for the marginal groups of coastal fishermen and its soft stand on defaults and low interest rates. It never fully addressed the viability and operational efficiency goals until USAID/Costa Rica stopped its administrative support to FUCODES in June, 1980.

The USAID decision forced FUCODES to address the viability and efficiency institutional goals at the expense of the equity goal. It is my contention that FUCODES couldn't effectively pursue the equity goal in the first place because it did not take an evolutionary

* Summarized from "The Trouble with Goals of Small Farmers Credit Programs (and How to Get Out of It)" Judith Tendler, Berkeley, California, Small Farmer Credit Analytical Papers - AID Spring Review of Small Farmer Credit - Volume XIX, June, 1973, No. SR113.

approach to providing credit to the groups for economic or other purposes which were consonant with the experience of these low income people and their own self-defined needs and choices. It could not properly pursue either economic or operational efficiency because neither it nor the groups it promoted had sufficient experience at the time. This experience could have evolved, but again too much was tried too soon. It couldn't adequately pursue the viability goal because its fund raising projections were unrealistic from the beginning and, through the grant, it became overly dependent upon USAID funds.

According to the final report prepared by GAMCO, FUCODES addressed the viability and operational efficiency goals by reducing staff to six persons, abolishing the promotion department (replacing it with a two-man credit department) and selling off most of the equipment. These drastic steps were necessary because of an insufficient project load, failure of approximately half of the projects, high default and delinquency rates decapitalizing the loan fund, insufficient revenues from local fund raising efforts and finally, a general acceptance by all concerned that the original OPG operational strategy and development approach were wrong.

The amendment of the OPG, engineered by USAID with the concurrence of FUCODES' Board of Directors, significantly altered the operating rules of the credit program and reinforced the institutional focus on viability and efficiency:

-- No new groups would be promoted and organized and credit would only be given to already existing groups of at least 15 members.

-- Each group application for a loan would have to be sponsored by a public or private institution that would guarantee loan repayment, as well as the delivery of technical assistance; also USAID/CR would have to analyze and recommend new loans before FUCODES could disburse funds.

-- All undisbursed funds not earmarked for the loan fund were reallocated to it. Additionally, 66% of the total OPG amount was now allocated to the loan fund instead of 38% as in the first stage of the project.

-- The interest rate on loans was gradually raised from 7% until it reached 20.5% per year by the end of the OPG period (May, 1982).

In terms of operational efficiency and institutional viability, some definite progress has been made this past year by FUCODES as a result of the conditions established and the new operating rules under the amended OPG. The collection process has improved, pre-loan analyses have more of a technical input and the loan portfolio is increasing in amount and numbers. With the reduced operating costs of a smaller staff, and assuming there will be fewer defaults and delinquent payments, FUCODES could be able to reach the break-even point from internally generated sources for the first time.

However, the institutional objectives of equity and promoting participatory social processes were sacrificed in order to reach the viability and efficiency goals. This affirmation is supported by the following quote from the "FUCODES Rural Credit OPG - Final Evaluation Review" by GAMCO, Inc. (pages 31 and 32):

> "FUCODES' impact as a development institution has diminished because of its recent concentration within the agricultural and livestock sector--these sectors are the ones that have various sponsoring institutions. There are many financial institutions that are active in the agricultural and livestock sector, but none seem to be assisting the small fishermen. During the first stage, the Foundation had a definite niche within development institutions, since it was the only financial organization that was reaching the small fishermen with some magnitude. It will be comendable, if FUCODES could again support this latter sub-sector. The lessons learned and experience gained within the last three years has prepared the Foundation staff to deal more effectively with small fishermen groups (the ones that are already organized into groups). The small fishermen of the northwestern region are still not reached by institutional credit sources, and many still view FUCODES as their only real opportunity to receive financial support."

The FUCODES experience may confirm rather than deny the validity of the original concept of NDF development which emphasized providing credit to informal associations of the poor. These credit programs worked because they took advantage of indigenous forms of borrowing which relied on group sanction and control for repayment.* It also shows that the superficial joining of equity, efficiency and viability goals by project designers can cause predictable outcomes.

* "Fitting the Foundation Style: The Case of Rural Credit", Judith Tendler, October 1981, The Inter-American Foundation, p. 38.

HAITI

Role of PADF in Establishing HDF

In late 1977 and early 1978, PADF entered discussions and exchanged correspondence with USAID/Haiti to establish a national development foundation. The original proposal to USAID was similar to the FUCODES project in that it was directed at establishing a rural credit and development program for the poorest sectors in the countryside through the organization of small groups.* At USAID's recommendation, PADF changed the original design to concentrate on micro-businesses in the Port-au-Prince area. An internal USAID memorandum of April 26, 1978, concerning PADF's OPG proposal was critical of the rural credit program based upon doubts about the rural poor's ability to repay loans (viability) in the Haitian context and a concern that it would duplicate other USAID credit and community development programs in the public sector. On April 28, 1978, a meeting between PADF and the USAID staff was held to discuss these issues and on May 11, 1978, the Executive Vice President of PADF wrote the following to the USAID Director to confirm the change in orientation of the proposal:

> "...we find understandable and acceptable the reasons offered for placing priority emphasis on opening credit opportunities to the very poor living in urban centers especially the Port-

* This proposal is not available in either PADF or USAID files, but is referred to in correspondence between the two entities and internal AID memos. (See AID memorandum from Ann McDonald C/CAP, to Mr. Parke D. Massey D/DIR, dated 4/26/78 "Pan American Development Foundation's OPG proposal for an NDF in Haiti.")

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au-Prince vicinity and to handcraft projects throughout Haiti. It is likely that such groups will be more accessible to the new national development foundation staff and leadership. It is also possible that more loans can be negotiated in a two-year period than was envisioned for work with the rural poor.

"We also understand the concern expressed for seeing to it that the interest be maintained among the men and women that constitute the "national organizing committee of the National Development Foundation." They have agreed to expand their members very broadly. They also face with pride the commitment to raise their fair share of costs from the Haitian private sector. We agree to keep data and records available to allow authorized evaluators to determine at all times the quantity and quality of the Haitians' input to the project. PADF's own primary interest in taking this initiative is to do something effective in Haiti through Haitians. Considering the scope of our mandate and geographical concern, we want to leave self-sufficient friends and associates in Haiti as soon as is reasonably possible."

From May, 1978, until the OPG was signed in 1979, the new proposal with an urban focus went through major rewrites to incorporate USAID's recommendations. USAID joined PADF in becoming the major designer of the OPG program and its budget. Although a local committee had been formed among Haitians working with the Partners of the Americas, there is no record of their exact input and the degree of their participation in the project design. All the correspondence in USAID and PADF files are interchanges between the two agencies with references to consultation with the organizing committee. From my interviews with Mr. Flambert, the first President of the Board of Directors, the local committee of Haitian sponsors were apprised throughout the process of the design of the project being made by PADF and USAID.

The process of agreeing upon the project design was further complicated by a change of staff in the USAID mission. The record shows that PADF negotiated with three different USAID/Haiti Directors and with at least three different OPG officers and project designers during the period.

An August 14, 1978, USAID memorandum states that "the PADF presentation (which was a revision in response to our earlier suggestion that they concentrate their credit program on urban small enterprises rather than on rural communities) is inadequate. It is clear that they are getting into an area which they do not understand very well, and a lot of additional work should be done before we sink OPG money into the project." USAID, therefore, requested PADF to redesign the proposal incorporating a survey of small businesses in Port-au-Prince and obtaining the assistance of Accion/International (AITEC) in planning the OPG.

In October, 1978, PADF submitted a new proposal incorporating USAID recommendations. Since AITEC had declined PADF's request to be a co-participant in the project, PADF acquired the services from Partnership for Productivity (PfP). PfP had, at that time, considerable experience in Africa in small business development. This two-year proposal requests $296,920 for PADF as a grantee and $69,500 for PfP, as a separate grantee.* USAID viewed the collaboration between two major PVOs and the new foundation as part of its development strategy to involve the private sector in the delivery of resources and services to the poor.

* PADF proposal submitted to USAID for an OPG to establish the Haitian National Development Foundation, dated October 1978. Total requested $366,420.

Prior to approval, USAID once again expressed considerable concern about the ability of local supporters and international donors to provide counterpart funding to assure the new HDF's viability. PADF responded to these concerns stating that the experience of the established NDF's showed that these institutions required about five years to reach a self-sustaining level. However, PADF repeatedly emphasized that local fund raising and other international grants would be sufficient to cover costs during the OPG grant period of two years. In a response to USAID's final concerns on the project PADF wrote:*

> ...The proposal speaks of the non-AID funding for both the revolving fund, and general administrative and other start-up costs as PADF - local costs. This title is used because PADF is the agency receiving the grant and assuming the responsibility to achieve the goals described and to see that the matching funds are provided. PADF and the local national organizing committee leadership are fully aware that all efforts will be made to raise the matching funds through local initiative. Fund raising is one of the significant activities involved in bringing the local private sector into an institutionalized and organized approach to development. It is because the local leadership has accepted the fund raising task - in conjunction with the NDF's executive director - that PADF has agreed to lend its services to this project.
>
> "Various fund raising strategies are used by other NDF's in the region. PADF and the family of NDF's are prepared to assist the new Haitian entity to develop the most effective approaches to finance."

Based upon this response and a commitment by the PADF Executive Vice President, a provision was put in the grant agreement to have PADF guarantee counterpart funding of $29,300 in the first year, $67,000 in year two and $124,200 in year three. USAID extended

Letter from John Lynch, Senior Program Director, PADF, to Lawrence Harrison, Director USAID/Haiti, dated October 17, 1978, p. 12.

the project to three years at the last minute and reincorporated the rural focus of the original proposal by giving HDF the option of expansion to the countryside in year three. The amount of the grant was increased from $366,420 to $495,000 to cover the addition of a third year.* It was decided to go ahead with approval even though the results of an AID financed survey to determine credit demand of small businesses conducted by Pragma Corporation and Michigan State University had been delayed and was not published until after the grant was signed.**

In presenting the final version of the OPG proposal, PADF outlined its concept of the establishment of the Haitian Development Foundation (HDF). In this presentation, PADF made a significant departure from its normal procedure of establishing NDF's. Instead of organizing an autonomous foundation from the beginning of the process, it proposed to name a United States citizen as an Acting Executive Director.*** The Acting Director would work closely with a Haitian citizen designated to become the Executive Director after two years. This cumbersome plan was later changed and it was decided to name a Haitian economist who had lived in the United States for the past eighteen years as Executive Director of the foundation, but he was to be an employee of PADF for the first two years. This departure

* AID memorandum dated May 17, 1979, by Scott Smith, PD, to Lawrence Harrison, Director USAID/Haiti, presenting the Project Paper for HDF OPG.

** Michigan State University (MSU) - "Small Manufacturing and Repair Enterprises in Haiti: Survey Results" by Steve Haggblade, Jacques Defay, and Bob Pitman - Working Paper No. 4, 1979, of MSU Rural Development Series.

*** PADF statement dated October 20, 1978 - "Summary of PADF Activities Involved in Establishing the Haitian National Development Foundation."

in PADF's normal procedure of establishing NDF's caused a fusion of the two entities. It reinforced a paternalistic relationship making the new NDF's raison d'etre largely dependent upon PADF and the USAID grant.

The Operational Program Grants (OPGs)

In May, 1979, USAID made a $495,000 operational program grant (521-0118) to PADF to establish the Haitian Development Foundation to provide credit services to small businesses and low income groups in Port-au-Prince and eventually to the small rural towns. The original grant was to last three years, but because of financial problems that resulted from fund raising deficits, the funds were expended in two and one-half years with USAID concurrence. A second OPG (521-0144) was approved in January, 1982, for an additional $495,000 to PADF for a period of one and a half years ending June 30, 1983.

Under the first OPG agreement PADF was to assist a local committee to legally constitute the HDF; employ on its payroll the executive director of the local foundation; assist in the selection of staff; sub-contract PfP to train animateurs and conduct a survey of businesses in Port-au-Prince; establish loan policies and procedures; assist in the establishment of financial and accounting systems; capitalize a revolving fund of $225,000; and provide technical assistance in the development of a fund raising program to secure counterpart monies for the loan fund and HDF operational costs.

According to the OPG, PADF was to provide six man months over a two-year period of short-term technical assistance and 24 months of long-term technical assistance through the Executive Director. The actual expenditures for the HDF and PADF under the OPG were:

PADF - OPG EXPENDITURES*

	OPG BUDGET	ACTUAL
Technical Assistance	$ 228,500	$ 235,375
-- PADF		(88,855)
-- PfP		(64,520)
-- HDF Executive Director		(82,000)**
HDF		
-- Operations	116,500	219,625
-- Loan Fund ***	150,000	40,000
Total	$ 495,000	$ 495,000

* PADF - OPG for Haiti Budget and Actual Use, July, 1982.
** Includes salary, travel, relocation and moving expenses.
*** Budget amended by USAID at PADF's request reducing loan fund to cover HDF operational deficit and PADF technical assistance costs (including HDF Executive Director).

The second OPG (521-0144) of $495,000 signed on January 8, 1982, continues USAID support for one and a half years to PADF to finance part of HDF's operating costs, provide technical assistance for the expansion of credit and services and to increase the revolving loan fund. The specific objectives of this OPG are to: solidify HDF's management, financial and training capabilities; expand the credit program to one provincial area; broaden HDF staff skills in fund raising; strengthen the Foundation from an overall institutional and financial standpoint to establish the basis for a major concessionary development loan from AID and/or other agencies in the 2-3 million dollar range. From January to June, 1982, PADF is to concentrate on improving HDF's management capability, fund raising, and loan processing efficiency. In addition, it is anticipated that SOLIDARIOS will provide HDF with an additional source of credit for its revolving loan fund, since HDF became a member in July, 1981, and was evaluated by Development GAP in November, 1981. From July, 1982, to June, 1983, PADF is to assist HDF prepare itself for assuming a diversified and expanded loan portfolio by strengthening its financial management and credit extension staff. The second OPG budget is summarized below:

SOURCES OF FUNDS

		FY 81-82* 2nd Half	FY 82-83*	Total
I.	External Tech. Asst & Trg.	$ 41,000	$ 78,000	$119,000
	--AID/OPG	36,000**	58,000	94,000
	--PADF regional NDF project	5,000	20,000	25,000
II.	HDF Operations***	182,000	386,000	568,000
	--AID/OPG	91,000	160,000	251,000
	--Memberships, local contrib.	25,000	50,000	75,000
	--Interest and TA fees	25,000	85,000	110,000
	--Other international donors	41,000	91,000	132,000
III.	Revolving Fund	260,000	475,000	735,000
	--AID/OPG	50,000	100,000	150,000
	--IDB	200,000	75,000	275,000
	--SOLIDARIOS	-	270,000	270,000
	--Other international donors	10,000	30,000	40,000
	TOTALS	$483,000	$939,000	$1,422,000

* Refers to HDF's fiscal years (Jan-June 1982, July 1982 - June 1983).
** Includes PfP consulting of $4,000 (1 p/m).
*** Includes HDF Executive Director.

Pursuant to these two OPGs, PADF signed agreements with HDF in July, 1979, and in January, 1982, respectively. PADF also signed an agreement with PfP as a sub-grantee under the first OPG.

PADF Role, Relationship and Performance Under OPGs

It is difficult to separate PADF performance from HDF in the first two years of the operation of the original OPG because of the fusion that existed through the employment of the HDF Executive Director as a PADF employee and the paternalistic patterns of the relationship. In my interviews, USAID, PADF and HDF used parent-child metaphors to characterize the different shifts of relationship that occurred and are discussed later on in this section.

The relationship between PADF and the newly founded HDF went through four distinct stages from the signing of the first OPG in May, 1979, until July, 1982. The first stage which lasted until about the middle of 1980, can be characterized as a friendly, paternalistic relationship. During this stage, the majority of the efforts were spent in the problems of organizing the HDF, recruiting and training the animateurs, conducting the survey and establishing loan policies and procedures. PADF facilitated the Executive Director to travel to Costa Rica in 1979 to review the loan operations of FUCODES, which, as we saw in the last section, was also newly implementing a USAID OPG. The former Peace Corps volunteer, who worked for FUCODES, was sent to Haiti to assist in the establishment of the loan policies and procedures. PfP completed the survey and trained the animateurs. By June 30, 1980, the animateurs had visited a total of 184 small businesses in Port-au-Prince and provided six months of technical assistance to 89 clients and provided 10 loans to sole proprietorships.

All of the accomplishments and problems in this stage were documented in the first evaluation of the Haitian Development Foundation conducted by USAID/Haiti, PADF, PfP and HDF.* This first self-evaluation mentions two areas which specifically refer to PADF's role The first area concerns the fact that PADF did not provide technical cooperation in fund raising to assist HDF reach the target goal of local contributions in the first year. The second refers to the fact that the HDF's Board of Directors were not delegating proper authority to the Executive Director. The first Board of Directors consisted of 17 founding members who divided into two factions which created a chaotic situation and seriously hindered HDF operations from the beginning. The Board did not concentrate on membership expansion, but viewed the HDF as their private domain. The by-laws of the HDF invested the Board with the sole authority for management and administration of the Foundation. The Executive Director had no inherent authority to carry out his job. This situation lasted for about a year and resulted in the Executive Director asking for the resignation of the Board. A new Board of seven members was formed and the by-laws were changed to delineate authority and responsibility. This problem may have been avoided if PADF had given more attention to the by-laws of the new foundation and assisted Board members in understanding their functions and responsibilities.

* AID - Project Evaluation Summary on HDF (OPG - 521-0118), dated October 17, 1980.

The second stage of the PADF relationship with HDF begins shortly before the first evaluation was undertaken. PADF starts to act more as a supervisor of HDF. In this stage, PADF places major emphasis on its role as monitor and supervisor of HDF under the grant agreement in an attempt to forestall the impending financial crisis which was developing because of deficits derived from local fund raising failures and accelerated expenditures of operational funds. This shift coincides with a change of the PADF representative for Haiti. In this stage, the new Board of Directors begins to exercise their responsibilities in guiding the HDF and in making the Executive Director responsible to them with sufficient delegation of authority. The fusion that previously existed begins to separate and there is a clearer delineation of the roles and responsibilities of each agency. Under the leadership of the new Chairman of the Board, the membership base of the HDF begins to expand until it reaches 122 members in June, 1981 and 177 in June, 1982.

Since viability and operational efficiency were the major concerns of both PADF and USAID in this stage, PADF placed major emphasis on foreign fund raising, financial management and loan processing. The local attempts at fund raising had been a financial disaster, because HDF, as in the case of Costa Rica, engaged in risky ventures. These ventures involved the establishment of an art gallery and raffles of houses. By, July, 1981, the deficits in fund raising and operations were $66,520 and $48,010, respectively. Because of this deficit, USAID and PADF placed strict controls on HDF expenses and revised fund raising plans. In the second evaluation of HDF, conducted by USAID, PfP and PADF, HDF was encouraged to continue the campaign to gain more members, abandon risky venture and to seek foreign funds.* Several attempts by PADF and HDF to obtain grant funds from U.S. corporations based in Haiti failed. However, at the time of the evaluation, HDF had acquired an IDB loan of $500,000 for its credit program and a grant of $46,000 for local technical assistance. PADF provided $37,500 as a 20-year soft loan for the credit program, $12,500 as a grant and a $43,000 one-year loan for operations.** The Public Welfare Foundation provided a grant of $23,000 for training and salaries of animateurs. Despite this infusion of foreign funds, the HDF was still in a crisis situation.

The financial crisis led to the third stage, conflict between PADF and HDF. In this stage, the relationship between HDF and PADF is characterized by a total separation of the two entities. The HDF Executive Director reports solely to the Board of Directors. However, the conflict in the relationship does not lead to a rupture, because both HDF and PADF are dependent upon USAID funds for their program.

USAID, in turn, increasingly views HDF as one of its major opportunities to use a private sector channel in Haiti to accomplish its development strategy. USAID had been increasingly emphasizing PVO involvement in development because of the ineffectiveness of Haitian government entities and U.S. congressional pressures.

* AID - Evaluation - Haitian Development Foundation (OPG # 521-0118) dated October 7, 1981, signed by Harland H. Hobgood, USAID, Director, Haiti.

** This loan is under renegctiation with HDF softening the terms from 10% to 5% and extending repayment to 10 years beginning 6/30/85.

PADF, as a PVO, in September, 1981, received a USAID grant of $3.9 million to undertake an agroforestry outreach project (#521-0122) to hire a team of agroforestry experts to assist peasant community groups working with religious missionaries plant 800,000 trees.* Since PADF performance under this contract has exceeded USAID expectations, its confidence in PADF correspondingly increased. USAID is satisfied with PADF's role as a monitor and supervisor of HDF and USAID has collaborated closely with PADF in this process.

In this conflict stage, the relationship between PADF and HDF is further complicated by the emerging influence of SOLIDARIOS. HDF, as stated earlier, had become a member of the organization in July, 1981, and applied for a loan. This loan application to SOLIDARIOS led to the Development GAP report.** This report factually documents the financial situation; the problems between PADF and HDF; and questions "whether HDF might not best be able to find the type of assistance it needs from within Haiti, from other NDF's, and directly from PfP." The report documents the conflict which reached its peak in October, 1981, when the Chairman of HDF's Board wrote PADF. This letter which was quoted by GAP, is re-quoted below because it summarizes the Haitian position in the crisis and the difficulty of breaking the paternalistic relationship.

> "Two years of relationship with PADF has elapsed, faces have come and faces have gone from both PADF and HDF. Our problems remain and the immense task of Haiti's development is as pressing as ever. It is time now to

* AID Haiti, Project Paper, Agroforestry Outreach" - Project Number 521-0122, dated July 31, 1981.

** Development GAP - "Analysis of the Fondation Haitienne de Developpement (Haitian Development Foundation: HDF)," Port-au-Prince, Haiti, prepared for SOLIDARIOS, Santo Domingo, Dominican Republic. December. 1981.

to evaluate the sense and perspective of our relationship and try to gain new impetus to deal with the difficulties ahead of us.

"As you know, to achieve any great task, it takes human and financial resources as well as efficiency. Even though this sounds businesslike, development work is a different vocation. Development work requires a different attitude.

"The Board, throughout last year has shown great devotion to make HDF a viable institution. It took some sacrifice to keep providing our services to the beneficiaries. We also have been pleased that PADF can also take pride and credit for the success of our project. However too often have we observed a lack of concern, positive and extra commitment from PADF for the different stages of growth of HDF Sometimes we even feel that PADF is not paying attention to the human aspects and human concerns that are part of development works.

"It is in the framework of thought that I would wish a much better collaboration in the year ahead. However to facilitate this coooperation some hard decisions must be made. The Board of HDF cannot carry alone the burden of miscalculations which were made by PADF in its negociation with USAID and misjudgement from the beginning of our operations.

"1. PADF failed to meet a contractual arrangement to help raise funds for HDF However today, PADF put all the burden of fund raising deficits on HDF.

"2. PADF worked out a budget with USAID that was unrealistic and PADF constantly blames HDF for not having enough resources to get the assigned work done.

"We know that PADF has made loans after loans to HDF to try to correct these mistakes. Now looking back to PADF's strategy and how PADF is benefiting from these mistakes by collecting interest even at a time when we can barely manage financially, we draw the conclusion that there must be some lack of concerns and commitment for the continuous success of this project. We are aware that HDF's achievements have been used as a yardstick to encourage the development of other national foundations in the Caribbean area and we also assume that PADF stands to enjoy some external benefits to that effect. We cannot however blame PADF for diversifying instead of consolidating what it has created in Haiti.

"Therefore we think that PADF can also share with us the burden of our problems."

This is an important letter because it clearly outlines the Haitian attempt to exercise their autonomy and participate in not only defining the relationship with PADF, but also in determining the type of assistance it required. The letter is correct in stating that the responsibility for much of the problems HDF encountered in becoming a viable institution were a result of USAID and PADF "miscalculations and misjudgement" in planning the OPG. It is correct in stating that PADF failed to provide technical assistance in fund raising and to meet its commitments under the OPG to take responsibility for fund raising deficits. Most importantly, however, it is a letter which shows that the Haitian Development Foundation has come of age and views itself as an equal in dealing with PADF.

Although the financial matters mentioned in the letter were renegotiated, PADF did not accept its share of responsibility for the fund raising disaster and never officially answered the letter to address the problem of relationship. Rather PADF continued its negotiations with USAID because of the urgency to obtain additional funds to keep the program alive under the second OPG which was finalized in January, 1982.

At this time, PADF was concerned with the ability of HDF to manage its program and closely monitored all aspects of HDF's financial reporting. It was responsible for the grant, and, as such, PADF was trying to control HDF behaviour in order to assure that the outcome of the project and negotiations with USAID would be successful.

Prior to the signing of the second OPG, the HDF Executive Director submitted a draft agreement to the Vice President of PADF, who is also responsible for monitoring and providing short-term technical assistance to HDF. This draft agreement incorporates three important provisions to reflect the Haitian Development Foundation's assertion of autonomy and desire to change the terms of the relationship with PADF.* The major provisions deal with HDF's desire to determine its technical assistance needs and to make PADF accountable to it in reporting the related costs; HDF's assumption of total responsibility for local and international fund raising and authority to decide on the use of funds programmed for this purpose as technical assistance under the OPG; and, a provision making HDF an equal partner under the OPG by cosigning the grant agreement. According to PADF, since the initial stages of planning and drafting of the second OPG, USAID always envisioned that PADF would be the intermediary on the OPG and was not willing to consider making a grant directly to HDF.

With the exception of recognizing HDF's sole responsibility for fund raising designed to obtain counterpart funding, none of the other provisions were incorporated in the second OPG or the subsequent agreement between PADF and HDF. However, the OPG planning document does recognize the need for HDF to assert greater autonomy and phrases the issue in terms of a dilemma:**

* HDF draft agreement between PADF and HDF defining relationship, rights and responsibilities of both institutions in the implementation of Phase II of USAID OPG. (December 1981)

** AID Project Approval Document for OPG # 521-0144 dated January 8, 1982, signed by Harland H. Hobgood, USAID Director, Haiti, providing $495,000 over an eighteen month period for the continued support in the development of HDF, page 24.

"1. HDF Autonomy

Although the HDF is a separate legal entity organized under the laws of Haiti, it has to date been somewhat limited in its freedom of action having been funded principally by one organization (PADF-USAID) and operating one sector, i.e. micro-businesses in Port-au-Prince...." "Therefore, it is both desirable and a specific goal of this project that HDF continue to develop greater autonomy. Recent actions taken by the HDF which indicate this institutional independence include the entry of HDF into SOLIDARIOS last July, and the transfer of the Executive Director from PADF's payroll to HDF's own beginning in January 1982. This trend will continue as HDF's fund raising at the international level progresses during 1982, as additional donors become involved, and additional program activities are started. However, the key to autonomy is the achievement of sound and consistent financial management in order to assure that the foundation's autonomy is not relinquished due to funding weaknesses."

This statement and a subsequent cable to LAC/DP, which was critical of the GAP report and supportive of PADF's application to PVC for a matching grant, clearly shows that USAID collaborated with PADF throughout the process of rigorously monitoring HDF's financial situation. The USAID cable makes this clear:*

"...As a new institution, HDF has learned by taking on high risks and by making some significant mistakes as it plowed new ground. Sometimes PADF's critiques of those mistakes and its own quick responses to take corrective actions were painful. Healthy egos were bruised in the process. But the Mission's own indepth review of the result is that the process produced superior institutional growth in HDF and a continuing relationship with PADF that is not only positive but essential to HDF's further growth and portfolio expansion as a key private sector development agency.

"4. It should be clear that there are still differences of view on some operational and policy issues. But let the record show that it was PADF, with this Mission's full support, that first raised with HDF Board and Management: (a) That HDF should assume more and more of the responsibility for its total program; (b) that it should become more efficient in its fund raising operations; (c) that the Board should take on full responsibility for evaluation, review and discipline of operating staff performance; and (d) that HDF should undertake more thorough and effective advanced program planning with greater independence from PADF."

* Cable dated 2/19/82 from AMEMBASSY Port-au-Prince to SECSTATE Washington, D.C.

Based upon USAID and PADF judgment that HDF still had difficult management problems, the decision was made in January, 1982, to fund the second OPG under PADF's guidance and continued technical assistance support.

During the conflict stage, an incident occurred which further exacerbated HDF and PADF relations. The HDF Director had requested 25 dental units from PADF to earn revenue. PADF provided three units at a value of $7,500 payable in three installments. PADF deducted the installments from its normal OPG disbursements to HDF. Unfortunately, HDF had trouble placing the equipment to third parties. However, eventually clients were found and loans were provided by HDF to recover its investment and take care of its cash flow problem Since HDF was in a financial crisis at the time, the deduction of the costs from grant disbursements caused the HDF to question PADF's concern for their problems PADF later donated two units of dental equipment to HDF valued at about $9,000 to rectify the situation and to assist HDF earn additional revenue. Parts of the second shipment are still stored in HDF offices since clients have not been found. During my interview with some HDF Board Members, they still refer to this problem as one which led to their resentment of PADF

The conflict stage is further documented by Jean-Claude Garcia-Zamor,* a consultant to PADF, funded by the project with the concur-

* Evaluation of the Haitian Development Foundation (OPGs # 521-0118 and 521-0144) submitted by Jean-Claude Garcia-Zamor, Consultant to the Pan American Development Foundation and USAID/Haiti," Port-au-Prince, Haiti, July 1982.

rence of USAID and HDF, who conducted his inquiry on HDF in June and and July, 1982. This evaluation, following the two self-evaluations, is the third evaluation that is required by the OPGs. Mr. Garcia-Zamor presented this evaluation to PADF, USAID and HDF during my visit to Haiti. This report adequately traces the financial difficulties which led to the crisis and the final definition of roles between PADF and HDF. I agree with his analysis of the relationship and the recommendation that PADF and HDF agree on an acceptable formula to phase out the present formal relationship. His observations were confirmed by my interviews with Board members who expressed their desire to terminate the formal relationship with PADF at the end of the second OPG. The relationship during the crisis stage had developed to the extent that an adversary relationship existed which inhibited the effective delivery of technical assistance.

This brings us to the final stage of HDF and PADF relationship. The phase-out stage, which is presently underway and will last until the end of the second OPG in July, 1983. According to the OPG and the Agreement with HDF, PADF is required to continue its general advisory services in practically all phases of the HDF operations involving fund raising, financial matters, regional expansion plans, loan policy, interest rates, service charges and group lending. A close reading of the second OPG makes it clear that USAID and PADF's primary institutional objective is to strengthen HDF sufficiently in order to establish the basis for a major development loan from AID in the 2-3 million range for relending at commercial rates.*

* AID - "Annual Budget Submission - FY 1984 - Haiti, June 1982," page 24.

The loan would generate sufficient income from the interest spread to assure HDF's viability. This was confirmed in the session between USAID, HDF and PADF concerning Jean-Claude Garcia-Zamor's presentation of his report. At this meeting, one of the major tasks for PADF and HDF to complete during the phase-out is the preparation of the loan package to prepare HDF for the third round of funding. Note that the USAID official cautioned that there was no guarantee that the loan would be approved, but that, at this stage, the Haiti Mission was supportive of the plan.

During the first six months of 1982, PADF has continued to monitor HDF's financial situation and provided support in fund raising.

Mr. Garcia-Zamor adequately assesses PADF's recent attempts to assist HDF in fund raising. PADF contracted Funderburke and Associates, a Washington, D.C. based management firm, to provide assistance in developing fund raising strategies in the United States. The involvement of a fund raising consultant was discussed with AID and HDF in the second OPG negotiations and the HDF director had met previously with Funderburke Associates. Although the report was acceptable to the HDF, they do not have resources ($45,000 over a fifteen-month period) to carry out the plan. Funderburke assumed that many of the tasks could be performed by HDF staff.

In my interview with the Chairman of the HDF Board, he stated that HDF did not seek this assistance and at first resisted PADF's offer of providing the services of Funderburke and Associates, but finally acquiesed at PADF's insistence. The PADF May, 1982, fund raising seminar, held in Washington, D.C. with SOLIDARIOS and conducted by United Way, was an effective training program for the HDF staff member in charge of developing local campaigns. Mr. Garcia-Zamor also points out that PADF and HDF have been competitive in seeking funding from U.S. donor agencies for their programs which led to tensions in the relationship and mistrust of PADF on the part of HDF.

In this final stage, PADF, USAID, SOLIDARIOS and HDF have made an attempt to avoid the misunderstandings of the past. SOLIDARIOS played a major role in this attempt to smooth over relationships by leading a planning seminar for HDF in April, 1982, in which PADF, USAID and PfP participated, as well as HDF, as part of its normal technical assistance program. After the planning sessions were completed, PADF and HDF representatives aired some of the problems that were crucial in the crisis stage to alleviate tensions and establish the basis for the new relationship in the final stage.

The final evaluation of Jean-Claude Garcia-Zamor is optimistic about the achievements of HDF. He specifically mentions the progress in reducing deficits, improved loan processing efficiency, financial management and the expansion of HDF's membership.

Prior to assessing PADF's performance and the overall HDF experience to date, it is necessary to retrace SOLIDARIOS' involvement during the crisis stage.

Relationships Among HDF, PADF and SOLIDARIOS

HDF became a member of SOLIDARIOS on July 31, 1981, coinciding with the conflict stage of PADF/HDF relationships. Since PADF and SOLIDARIOS still have unresolved policy differences in the establishment of new NDF's, this tension is reflected in the relationship among the three entities and highlighted in the GAP report.

These policy differences involved the relative importance placed upon group as opposed to individual credit; the issue of equity, or reaching the poorer population; and autonomy of the local NDF's. Although in theory PADF and SOLIDARIOS have a mutual understanding in terms of roles, relationship and the institution building process, the Haitian case shows the difficulty in operationalizing coordination because of the policy differences. The GAP report addresses all of these issues in its analysis of the HDF. First and foremost, the GAP report emphasizes that HDF possesses the capacity to design its own projects, manage its affairs on its own, and has achieved a considerable degree of operational efficiency. However, the report shows concern that HDF is not reaching its equity goal and has not been involved in group credit projects. The report notes that, although 40 percent of the loans made through June, 1981, were for less than $750 for clients with assets of under $1,000, the present tendency is to move away from smaller enterprises. It states that HDF runs the risk of excluding Haiti's poorest unless it moves aggressively into enterprise group formation and support.*

* Op.cit., pages 8 and 9.

In another section of the report, it emphasizes that:*

"HDF's decision to expand its work with groups, cooperatives and other collective enterprises in both rural and urban areas is a sound one, both financially and developmentally. - It will enable the Foundation to reduce its operational costs per loan and give it a basis upon which to stimulate other community-based intiatives. It will require the development of a capacity within HDF to work with existing groups and to help form new groups -- a capacity that both HDF and PfP recognize is needed. The HDF would want to work with groups considerably larger than those they assist at present, particularly the many traditional groups that exist in Haiti, such as societes and rondes.

"The Foundation is also giving serious thought to the creation of an association of small enterprise clients or associations formed along product lines. This would yield the benefits of joint purchasing and marketing, enhance access to commercial credit sources, and provide a channel of communication between HDF and its clientele. In addition, the HDF is considering moving into other sectors, such as fishing and housing. The Foundation's experience with small businesses in Port-au-Prince should minimize any difficulties in the former, where small-scale investments in storage equipment can help meet a growing demand for fish and satisfy nutritional needs. Housing, on the other hand, seems to be a much riskier venture for an organization, like the HDF, that has had no such experience."

Despite the encouragement given in the report to group credit activities, it does not recommend that SOLIDARIOS provide loan funds for group purposes because HDF does not have the required capacity and "...the Foundation's strength is economic activity and this is what SOLIDARIOS should fund."**

As was noted earlier, PADF and USAID through their evaluation reports and support to the second OPG, also wanted HDF to achieve autonomy and promote group credit projects.

The problem lies not in the inherent policy differences, but the paths each follows and encourages to reach similar goals. This will be addressed further in the analysis section.

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* Ibid., pages 12 and 13.
** Ibid., page 35.

Analysis of the OPGs Experience

Both PADF and HDF, with USAID financial support and PfP training assistance, can take credit for succeeding in establishing a national development foundation with a committed Board of Directors and a staff that has improved its performance in providing credit and technical assistance to over 302 small businessmen; making 202 loans with a 5.2% arrears rate; and improving its loan processing efficiency from eight loans approved in the first year to a cumulative total of 214 in the third year. These loans are serving small tailors, iron workers, shoemakers, grocery store operators and artisans in the Port-au-Prince area. None of these clients have had access to commercial loans prior to HDF's program. This is no small achievement in the Haitian context.

The following critique of PADF's performance should be viewed in light of these achievements. It should also be viewed in light of the fact that PADF is not the only outside influence on HDF. Many international actors are involved which are outside of PADF's control. PADF feels that this "is a perfect example of the push-pull effect that donor funding can have on programming with resulting financial implications on any foundation. This push-pull effect of "grantsmanship" must be recognized by HDF and dealt with, so that it does not adversely affect the organization." What is important here is that these "push-pulls" can cause confusion at the NDF level, if the local actors are not clear about their own priorities. Since the Haitian Development Foundation is still a relatively new institution and has been in a reactive stance vis-a-vis international funders and technical assistance agencies, especially USAID, PADF, IDB and, more recently, SOLIDARIOS, the confusion is particularly acute. Because of this situation and since PADF is the principal advisor and external influence, it has a special responsibility to be clear and precise in its role to assist new NDF's discover an institutional path which will allow them to meet their goals of serving poorer sectors of society.

Most of the problems encountered had their origin in the planning documents and in the paternalistic pattern of the relationship before the Haitian Development Foundation became operational. One of the fundamental errors was USAID and PADF's attempt to force unrealistic funding goals to satisfy the concerns of viability. The grant provided too much too soon given the problems of establishing HDF and the ineffectiveness of the first Board of Directors. It was also inadvisable to have the HDF Director as a PADF employee. It is impossible for any individual t lay an advisory role in an institution in which he is the director.

The financial crisis and conflict which resulted from the fund raising and operational deficits were a positive development because they changed the paternalisitc relationship and forced the HDF to exercise its autonomy and attempt to build a new relationship based upon equality.

Unfortunately, PADF misread the signals partially because it was pressed to obtain rapid approval of the second OPG and partly because it had lost confidence in HDF's management capability. The monitoring activity to control HDF behaviour, which began in early 1981, to avoid failure became excessive. The Vice President of PADF visited HDF 11 times in 12 months during 1981 and closely scrutinized the financial reports. He continued this activity during the first months of 1982. Although the controls put in effect on HD s budget and disbursements are appropriate monitoring procedures, they cannot prevent budgetary problems caused by poor planning and spending patterns that the original overfunding induced. Note that the second OPG also programs considerable counterpart funding and since HDF has a deficit as of the end of June 1982 of $28,510,* these financial problems may recur during the second OPG.

The positive contribution in improving HDF operating efficiency came about through the two evaluations conducted by PADF, USAID and PfP with HDF participation. These evaluations depersonalized the problems and crisis by recommending specific changes in operating procedures to improve efficiency. HDF has consistently complied with these recommendations as well as those made in the GAP report and an evaluation made by an IDB representative who conducted an evaluation at PADF's request. The evaluations were the the major external tools of HDF's improved performance. The latest contribution to improved performance of HDF is the external evaluation conducted by Mr. Garcia-Zamor with its corresponding recommendations.

The most fundamental error, in my opinion, was PADF's failure to give due consideration to the October 11, 1981, letter of the

* Garcia-Zamor Evaluation, page 39.

Chairman of the HDF Board and the draft agreement proposed by HDF redefining the terms of the relationship where it would have equal status and both partners would be accountable to each other.

The PADF in a sense, acted as any technical assistance agency would act in attempting to avoid failure and renew another contract with USAID. USAID encouraged PADF in this role because it was not staffed to monitor directly the OPG and it had enhanced confidence in PADF in Haiti.

Since HDF became a member of SOLIDARIOS, a year earlier than anticipated, the relationship problems were further complicated. As a member of SOLIDARIOS, HDF is a constituent of this coordinating and technical assistance body. Further, SOLIDARIOS and PADF, as shown by the Haitian case, have not been able to operationalize the tentative understanding reached in Miami. Although in theory, PADF's role is to diminish after a new NDF becomes a member of SOLIDARIOS, in the Haitian case this did not happen. The GAP report and SOLIDARIOS correspondence with HDF concerned the issue of autonomy. Although all the parties recognized that HDF needed to exercise its autonomy, there were different interpretations of what it meant in terms of specific relationships and assessment of HDF's institutional capacity.

Once the financial crisis was alleviated through USAID's continued funding of PADF, the actors were able to air past grievances and establish the basis for a new relationship. The SOLIDARIOS-sponsored planning seminar and the Jean-Claude Garcia-Zamor evaluation facilitated this process. HDF, PADF and USAID have reached an understanding that this phase-out is the best course to follow.

Although all parties now agree on HDF's new course, there are still unresolved problems. PADF and HDF have agreed that PADF will prepare a loan package for presentation to USAID in the 2-3 million dollar range. On the one hand, PADF and USAID have tried to control HDF's expansion plans because of its deficits and dependency. On the other hand, it is being encouraged to strengthen its management and loan processing capacity to undertake major expansion of its activities. The loan is also viewed as a major instrument in assisting HDF become self-financing through the revenues earned from the interest spread between soft and commercial rates. These contradictory signals are difficult for any dependent institution. The HDF has opted to expand to one or two regions and to begin loans to groups on an experimental basis during the next year.

The contradictory signals on expansion have been joined by contradictory signals on how to develop an effective credit program for groups.

The second evaluation conducted by USAID, PADF and PfP with HDF participation recommends that:

> "3. HDF is urged to develop a deliberate plan to coordinate business interrelationships among its loan beneficiaries to multiply the impact of development efforts."

In the analysis section substantiating this recommendation, a scheme is proposed whereby tourist shops and boutiques become the marketing channel for clients engaged in handicrafts and garment shops become the channel for tailors and shoemakers to enhance the development impact. Similar schemes of this nature often have failed because small businessmen do not want to build this type of relationship.

This is a complex organizational strategy for a new institution which has never engaged in group formation processes. Under the new agreement, PADF is to assist HDF in developing plans encouraging business interrelationships.

Similarly, the GAP report encourages HDF to move aggressively into enterprise group formation and support as was noted previously HDF is considering the entire gamut of group formation processes from cooperatives to complex marketing and business interrelationships because of these outside influences.

The only suggestion that makes sense to me are the simple group formation processes which were the original orientation of some of the established NDF's in their early days. They did not have a model in mind, but provided credit to informal associations in the rural areas. As will be seen later, the Fundacion Dominicana de Desarrollo (FDD) has developed a small business credit program for sole proprietorships and a totally separate program for vendors using the informal group model of credit. In the former case, there is no attempt to establish interrelationships. In the latter case, FDD adapted its informal rural group model to its urban credit program. The only suggestion similar to this for Haiti is PfP's recommendation to support traditional groups such as <u>societes</u> and <u>rondes</u>.

Presently, the confusion over group formation processes is both internally and externally induced. An example of the confusion and pressure over groups is HDF's reporting of partnerships of two members in their list of groups to show that it has complied with recommendations concerning this matter in USAID/PADF/PfP evaluations.

The HDF hasn't had time to absorb its own experience in small business development to determine the relative importance of credit and technical assistance in bookkeeping for its clients. Yet it is being encouraged to expand this program in Port-au-Prince, promote business interrelationships among its clients and establish other group credit programs in the rural area.

There is another tension in the institution building process that involves equity. On the one hand, HDF is being encouraged to increase loan sizes gradually. On the other hand, it is being told not to discontinue to serve the small businesses. In the five evaluations conducted to date, this tension is mentioned. Some recommendations encourage loans to smaller borrowers (equity); other recommendations encourage an increase in loan size (viability). Jean-Claude Garcia-Zamor's report focuses-in on this problem.*

> "At the urging of the Inter-American Development Bank's Coordinator of Small Projects, HDF submitted an application for a new $1 million concessionary loan to expand its operation into lending to medium-size businesses. The officials of the bank denied the request partly because HDF seemed to them to be no longer dealing with small borrowers. This decision is reviving a debate that has been going on about the long-range orientation that HDF should give to its portfolio. The original objective of the program was to help micro-businesses lacking small amounts of capital and not having access to traditional banking. However, some people have felt that if HDF continues to assist these smallest businesses, its operation will never become self-sustaining and funds will always be needed from international donors. Some programs similar to HDF elsewhere in the world have also proven that the original HDF approach to lending is questionable. A study entitled "Assisting the Smallest

* Op.cit., page 38.

> Scale Economic Activities of the Urban Poor" has found that direct assistance to the smallest economic enterprises of the urban poor is controversial. Some development experts suggested that scarce development funds would be better spent investing in the rural areas or in larger enterprises with the expectation that benefits would "trickle down" to the urban poor. Others worried that a program that assists microbusinesses would necessarily worsen the position of others, if overall demand does not increase. Finally some felt that even if it were desirable to assist microbusinesses, administrative costs would be excessive and the risks of default would be too high. However, when HDF applied to the Inter-American Development Bank for a loan that would allow lending to medium-size businesses, the application was rejected partly because of the purpose of the loan."

Thus, the institutional goals of equity and viability are, in Judith Tendler's words "warring with each other" in the Haitian Development Foundation. Since HDF is contemplating expansion in the rural areas and group lending, the conflict among these goals will be increased, unless it can discover an institutional path which allows it to address the viability goal without sacrificing totally its concern for the poorest Haitians.

BELIZE

In late 1980, through the Michigan-Belize Partners, Hershey Foods and the U.S. Embassy, PADF made contacts with businessmen and government officials in Belize concerning the establishment of a NDF. In early 1982, PADF invited several members of the business community to attend its seminars on national development foundations held in Jamaica in April and the SOLIDARIOS and PADF fund raising seminar held in Washington in mid-May.

In May, PADF representatives at the invitation of businessmen and encouragement from the U.S. Embassy, visited Belize to conduct an assessment of local interest and credit needs to establish a NDF Consultations were made with commercial banks, credit unions, the Development Finance Corporation and CARE. The assessment included the identification of the availability of credit for small businesses from the credit unions, the public sector and commercial banks. It also included a spot-check of small businesses in Belize City. Based upon this information, PADF presented an estimated OPG budget of $380,000 through the USEmbassy/Belize to USAID RDO/C Bridgetown for the establishment and operation of the NDF. A small planning proposal of $19,996 has been presented to PACT requesting $9,998 matched equally by PADF.

During my one-day visit to Belize, I met with four members of the organizing committee and the U.S. Commercial Attache to discuss the process of initiating a NDF in Belize. The four businessmen

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were definitely enthusiastic and committed to the concept of the NDF's and satisfied with the PADF training seminars. Their basic motivation was their desire to engage in development programs rather than the traditional welfare activities. They were specifically interested in assisting artisan wood carvers and repairmen. They also brainstormed about other possibilities in rural and urban credit programs.

They are just beginning to undertake their membership drive and local fund raising efforts. They have met with Prime Minister Price to seek government acceptance of the NDF idea. The Prime Minister expressed his interest in the concept and is favorable to their request for tax-exempt status.

It would be premature to predict the outcome of these organizing attempts. However, I believe that the best way to proceed is for PADF to continue to assist the local organizing committee in the planning phase. This will allow the businessmen to build on the momentum gained so far and realistically assess not only the demand for credit, type of enterprise to be assisted, but also the appropriate scale of operations of the new NDF if the local committee succeeds in its organizing efforts.

JAMAICA

Role of PADF in Establishing NDFJ

In the middle of 1979, the former PADF Executive Vice President met with prestigious businessmen in Jamaica and promoted the concept of establishing a Jamaican foundation. An organizing committee was established and PADF submitted a proposal to USAID in November, 1979, requesting an OPG grant of $500,000.* The original proposal included both micro-business lending and rural credit for groups. USAID showed interest in the small business credit program and suggested that PADF include representatives from the Small Business Association in the organizing committee. USAID also stated that it needed clear evidence that the Jamaicans supported and were committed to the concept.** The organizing committee did some work on the foundation but decided to postpone key decisions until after the 1980 Jamaican presidential elections.

This committee later disbanded and a new group was formed in February, 1981, through the efforts of PADF's present Executive Vice President. In this new attempt, PADF found able leadership and understanding of the approach through the Jamaican Small Business Association. This association has a membership base of over 700 members and readily identified with the unsecured credit approach supported by PADF. In April, 1981, PADF submitted a second draft

* PADF letter from Michael D. Miller, Executive Vice President, to Glenn O. Patterson, Director, USAID/Jamaica, dated November 21, 1979, presenting a formal proposal for a three-year OPG grant of $500,000 to form NDF in Jamaica.

** --PADF memorandum from John Lynch to Michael Miller, dated November 10, 1979 -- "Visit to Jamaica, November 26 to 28, 1979."
--PADF memorandum from John Lynch to the files, dated January 17, 1980, "Trip to Jamaica, January 6-9, 1980."

proposal to USAID requesting an OPG to establish the Jamaican Development Foundation and the small business credit program. In the review of the proposal, USAID fully supported the concept of the NDF, especially since it complemented other private sector efforts within USAID's and the Government of Jamaica's priorities. However, USAID felt that it needed more evidence of Jamaican support for the project and more of their input in planning the proposal. USAID was concerned also that the SBA sponsorship needed more balancing with prominent businessmen to insure the proposed level of $200,000 in counterpart funding.*

After discussions with USAID, PADF expanded this nucleus of supporters from the SBA to include prominent businessmen in banking, insurance, management and industry, as well as civic leaders associated with the cooperative and religious communities. Through PADF's effort, a steering committee was established which coalesced able and committed individuals from divergent backgrounds within the private sector.

The steering committee, with PADF's assistance, quickly became functional and efficient in undertaking the tasks to establish a national development foundation. From the beginning there was a clear and precise understanding of the unsecured credit program for small businessmen. The national development foundation concept was timely in the Jamaican context since it coincided with the present

AID memorandum from Jerome Hulehan to Glenn Patterson, Frank Morris, Bill Jones and John Jones, dated May 4, 1981, "Proposal from PADF for an OPG."

government's emphasis on private enterprise and job creation and with the specific interests of the SBA and prominent private individuals. Yet the convergence of all the actors from divergent backgrounds committed to a single purpose would not have happened, if it were not for PADF's commitment to the NDF concept and ability to act as a coalescing force.

PADF worked closely with the steering committee to set program and organizational objectives and set realistic local fund raising goals through membership drives. It helped the steering committee establish three major sub-committees on resource development, membership and fund raising/public relations. PADF discussed the proposal with a staff member of the Michigan State University survey team which conducted several studies on the small business sector of Jamaica.

The steering committee worked closely with PADF in preparing the revised draft of the OPG proposal and its corresponding budget setting both USAID and counterpart funding requirements. A revised proposal was submitted to USAID in June, 1981.* USAID's revision of this proposal pointed out concerns on the capacity to raise local counterpart funds; the lack of detail on loan administration and collection; exclusive concentration of loan activities in Kingston; salary scales; and the relatively high level of external technical assistance and training inputs.**

USAID decided to approve the proposal and to make disbursements subject to the fulfillment of specific requirements identified in its review.

* PADF - $500,000 OPG proposal to USAID/Jamaica, dated April, 1981, and revised June, 1981.

** AID memorandum from Jerome Hulehan, GDO, to Glenn Patterson, DIR, dated August 7, 1981, "Proposel OPG with PADF."

The Operational Program Grant (OPG)

On August 31, 1981, a $500,000 OPG Agreement (#532-0080) was signed between USAID/Jamaica and PADF to generate income and create jobs in the small business sector of the Jamaican economy. To reach these twin development goals, over the two-year period of the grant, PADF would assist in the establishment of the National Development Foundation of Jamaica (NDFJ) which would provide technical assistance to approximately 300 small businesses and credit to about 200 small businesses not eligible for normal commercial loans. A rotating loan fund of $220,000 in loans would be established for this purpose. The total project costs were estimated at $700,000 -- NDFJ providing $200,000 and USAID $500,000. The resource allocation on the budget is as follows:

Purpose	Source	Amount
-- External technical assistance and training	AID	$140,000
-- Operating and local costs	AID	230,000
	NDFJ	130,000
-- Revolving loan fund	AID	130,000
	NDFJ/PADF	70,000
TOTAL		$700,000

PADF Role, Relationships and Performance Under OPG

On September 23, 1981, PADF signed an agreement with the NDFJ to outline the roles and responsibilities of each organization with regard to the OPG. Under this agreement PADF would: receive and disburse to NDFJ OPG funds and monitor their use; provide technical assistance; and provide a $40,000 concessionary loan for the revolving loan fund. Under the rubric of technical assistance, PADF would: help NDFJ legalize its organization and create a Board of Directors; provide guidance on the national development foundation concept and on financial, management and staffing requirements to operate the small business credit program; conduct an analysis of the small business sector in Jamaica in order to help identify NDFJ activities; provide guidance on lending policies, procedures and eligibility criteria; develop and conduct a training program for key staff; assist in the design and implementation of membership drives and fund raising efforts; and help establish an accounting system acceptable to SOLIDARIOS.

In turn, NDFJ committed itself to: incorporate under Jamaican law; establish working committees; administer the operating budget; recruit and hire all staff; prepare annual budgets and engage an external auditor for the term of the OPG; design and conduct fund raising campaigns to raise $160,000 for use as set out by the OPG; prepare a proposal to the IDB small projects fund; establish an acceptable accounting system; submit monthly financial and loan reports and quarterly narrative reports; and obtain office space facilities.

In accordance with the last available status report prepared by NDFJ, dated April 29, 1982, and confirmed during my field inquiry, NDFJ has achieved in a relatively short time an impressive list of accomplishments. It received legal status on November 16, 1981. An adequate, well-equipped office is now functioning. It has a seven-member staff. The eleven-member steering committee has grown to a thirteen-member board of directors. Fifty-four affiliate members have joined NDFJ. A training program consisting of classes and actual field work for the loan officers initiated by PADF and PfP is underway. Local fund raising efforts have produced J$200,000 (US$114,286) of which J$155,000 is in cash and J$45,000 in bankable pledges. This represents about 70% of NDFJ's September, 1982, target of J$284,000.

NDFJ has developed and produced manuals for operational and loan policies and procedures. Targets for its first three years of operation have been established. It has identified as its principal market small businesses in Kingston having assets not in excess of J$50,000 (US$28,570). A plan to service this market through a combination of business and financial assistance has been developed. Loan limits have been established at J$10,000 (US$5,714) for individuals and J$25,000 (US$14,285) for groups.

As of the date of my July visit, NDFJ had screened 250 small business loan applications of which it had determined that 61 met the eligibility criteria. The prospective participants of the NDFJ credit program are engaged in a variety of manufacturing, retail and service businesses They include food preparation and processing, tailoring and dressmaking, shoemaking, woodworking and upholstery, metal work and repair shops. The eligibility criteria emphasizes the character of the applicant; his entrepreneurial motivation and skills; and the potential of the small business to create jobs, use local raw materials and generate profits.

At the time of my visit, the four loan officers were preparing the loan applications for review by the Executive Director and the Board. The officers had been screening applicants and providing those considered as eligible with assistance in preparing profit and loss statements, day books showing income and expenses and in some cases, securing markets for their products. My interview with the field officers and accompanying visits to three small businesses demonstrated that the PfP training program has been effective.

The most recent information on PADF's role is contained in a July, 1982, document entitled: "NDF/PADF Technical Assistance Programme Review." In accordance with this NDFJ assessment, PADF has designed and partially implemented a five course program for the training of NDFJ Board Members and Executive Staff covering national development foundation concepts and structure, financial management, role of the Board of Directors, fund raising and outreach program. Two (national development foundation concepts and structure and fund raising) of the five courses have been completed. In NDFJ's assessment, they were laudatory in their praise of the fund raising course, but they were not satisfied with the one imparted on national development foundation concepts and structure which was hosted by them in Kingston. The three-part training program for NDFJ field staff, designed by PADF and PfP, with significant input in its planning by NDFJ, is being implemented. The first training seminar was held in May, 1982, and NDFJ's appraisal shows that it was well presented and received.

In addition to the above training. PADF has facilitated the visit of the NDFJ executive director to the Haitian and Dominican Repu-blic programs. It secured a consultant from IDB for a two-week pe-riod to help NDFJ prepare a $500,000 loan proposal for the IDB small projects fund. PADF also continues to fill an important role in keeping other international agencies and groups current on the pro-gress of NDFJ.

The NDFJ review document of PADF technical assistance concludes:*

> "It is very difficult to comment on the general aspects of the technical assistance listed in the USAID agreement. For the most part it has taken the form of regular visits to find out how we were progressing and what problems we were having. We have been able to solve most of our start up prob-lems internally, and therefore, very little has been demanded of them. The resource persons on our Board have made it pos-sible to help us with whatever start up problems we have had. The fact that our founding members knew very much what they wanted the NDF to do and how it should proceed, made us very much less dependent on PADF than was expected by the USAID agreement.
>
> "In conclusion, we have found PADF very helpful in mak-ing international contacts for us, in purchasing machinery and equipment for NDF's use, and in spreading the word about our development but we have been able to handle our problems internally, and therefore, we have not had to rely on PADF for much technical assistance."

* NDFJ document dated July, 1982 "National Development Founda-tion of Jamaica -- NDF/PADF Technical Assistance Programme Review," page 2.

Review of OPG Experience to Date

I concur with the NDFJ's assessment on technical assistance and believe that PADF and the NDFJ should consider its implications in terms of the remainder of the OPG agreement period. The capability of the NDFJ to meet most of its technical assistance needs from locally available resources warrants some mutually-agreed upon modifications in the role of PADF and perhaps in the budget for this category. The fact that this type of change is necessary halfway through the life of the project indicates just how successful the partnership between PADF and the NDFJ has been.

The availability and use of local technical assistance is only one of the many "pluses" in the Jamaican OPG credit program. PADF showed great wisdom in the selection of its initial contact persons and organizations in Jamaica -- out of which the first members of the NDFJ steering committee were chosen and subsequent growth occurred. PADF accompanied the NDFJ through this entire process in a professional manner, playing a significant role in strategy development, goal setting, board and staff selection and finally, in the long planning effort that terminated in the OPG proposal and the first eight months of operation.

As a result, a competent, dedicated NDF is functioning in Jamaica with an excellent chance of becoming a self-sustaining institution within a reasonable time period. Program and institutional goals are clear and concise, leaving no room for confusion among them; initial activities are geared to available human and material resources and are concentrated on a single clientele group in a single urban setting, thereby easing management and administrative tasks while necessary experience is being obtained before eventual expansion occurs into other urban areas, rural zones and different types of individual and group micro-businesses. A significant percentage of NDFJ's first year's matching commitment under the OPG was either cash in-hand or firm pledges from local donors on the day the OPG was signed.

As indicated earlier, the success of the OPG to date, and the obvious capability of the NDFJ to run its own show, requires some budget and programming precision. I would suggest that PADF and NDFJ meet as soon as possible in order to reach an understanding about necessary changes and to modify the program plan accordingly. The present lack of clarity in the OPG and NDFJ/PADF agreements already has created some tension between PADF and the NDFJ over external technical assistance inputs. To me, NDFJ's concern over the quality of external technical assistance is derived partially from the fact that the different functions of monitoring, evaluation and technical assistance are not separately defined, nor are costs separated by category, at least in approximate terms. These need to be spelled out so that both PADF and NDFJ know precisely what is expected of each and also what monitoring and evaluation tasks. are required to be carried out by PADF under the OPG agreement.

In conclusion, I was singularly impressed with the dedication, competence and commitment of the NDFJ Board and staff and the clear and precise manner in which the Jamaicans are establishing the small business credit program. PADF showed unusual wisdom in its action as a coalescing force in bringing the right people together to establish and operate the NDFJ. PADF's assistance in the initial phase of the organization of the NDFJ, in establishing the training programs, implementing necessary monitoring procedures under the OPG and providing support services has been effective and appropriate. The mutual accountability between PADF and NDFJ is a healthy institutional development and can permit better precision in programming external inputs and focusing in on learning from the experience through mutually agreed upon evaluation programs.

Closing Comments

Primary emphasis is being placed upon performance to assure that the institutional goals of efficiency and viability are met. Since the potential clients of NDFJ during this stage are small businesses, the equity goal of reaching directly the lower 40% of the population through credit is being intentionally sacrificed in this stage. It is assumed that the equity goal will be partially met through jobs created from the expansion of the enterprises. Once NDFJ has shown its capacity to operate efficiently and satisfied its necessary concern for institutional viability, it could further satisfy its desire to address more fully the equity goal. Note that the Director of the NDFJ told me that the IDB representative who visited some of the potential clients, showed concern about the relative size of the businesses and stated that this factor would have a bearing on NDFJ's loan application. This may result in IDB's not approving the proposal for similar reasons underlying the rejection of the Haitian Development Foundation's second request, i.e. not addressing the equity goal.

DOMINICAN REPUBLIC

PADF Relationship with FDD

The Dominican Development Foundation (FDD) was established in 1962 by business and professional leaders under the name of the "Asociación Pro-Bienestar Social, Inc." In 1966, the name of the organization was officially changed to "Fundación Dominicana de Desarrollo (FDD)" (Dominican Development Foundation). The FDD is a founding member of SOLIDARIOS, the association of national development foundations in Latin America and the Caribbean.

The PADF association with the FDD began in 1965 and its advice and counsel were instrumental in changing the name and focus of the Dominican organization, i.e., the establishment of a national development foundation based on the experience of the Penny Foundation in Guatemala in providing credit to informal groups of the rural poor. The guiding principle of the NDF's is to directly involve the private business sector in helping to find solutions for the basic problems of poor people in urban and rural communities through development programs.

Besides giving technical assistance to the FDD until 1969, PADF also provided a concessionary loan of $325,000. PADF assistance in recent years has consisted mainly of the shipment of relief supplies to the FDD in the aftermath of the 1979 hurricane. FDD collaborates with PADF in assisting local institutions obtain vocational school training equipment and medical supplies. It assists PADF programs by hosting staffs of new NDF's to help them learn from the FDD experience. Although there have been problems related to the receipt of some unusable equipment and publicity in the U.S. over the PADF's 1979 disaster relief assistance in the Dominican Republic, PADF and FDD have been able to resolve them through good communication.

Although the FDD has been providing a wide range of services to the poor in the Dominican Republic, its main activity is the provision of credit and technical assistance to small farmers. Between July, 1966, and June, 1981, the FDD loaned a total of RD$26,753,055.60 (approximately US$19,000,000) to rural associations (FDD 1981 Annual Report, p. 7)

FDD OPG Experience with AITEC

Accion International/AITEC was contracted by the FDD in 1978 to design and assist in the implementation of a program to improve basic administrative and planning skills of small farmers. This collaboration between the two agencies led to a new contract in 1980 under which AITEC would do a feasiblity study for the establishment of a program of credit and technical assistance to urban micro-enterprises. The feasiblity study was finished in November, 1980, and its concept and design were used by the FDD in the preparation and submission of an OPG proposal to USAID/DR one month later. The proposal was approved by USAID and a grant agreement was signed with the FDD in April 22, 1981. Under the terms of this six-months agreement, AID granted $100,000 "to provide funding for technical assistance, operating and administrative expenses, and revolving fund capital in connection with the establishment of a micro-business office within FDD for the purpose of providing credit and technical assistance in management and financing to micro-businesses and solidarity groups.

Based on a positive assessment of Phase I (May-October, 1981), an amendment to the grant obligating an additional $256,000 over a 16-month period (November 1981 - February 1983) was signed between USAID and FDD on December 14, 1981.

AITEC provided technical assistance under the OPG to this FDD development program which has two separate and distinct components: 1) a micro-enterprise component section and 2) a solidarity group section. The former provides loans up to $3,000 and management training to small established businesses (maximum capital assets of $10,000), e.g., tailors, carpenters, mechanics, shoemakers, bakers, etc. Under the solidarity group section, loans of up to $300 and technical assistance are given to individual members of informal groups of hawkers and vendors. Some examples include the following: persons who sell fruits and vegetables by hawking their wares on the streets and who use heavy cargo tricycles with baskets to carry the produce; persons who collect papers and bottles for sale to other individuals or to factories for recycling purposes; persons who are push-cart vendors of various foods and beverages. Program concentration to date has been on the hawkers "tricicleros" of fruits and vegetables. (PISCES, Phase II Report by Susan Sawyer - The First Eight Months - October 1981.)

These informal groups of five to eight members are organized by the FDD -- or they organize themselves -- and each loan is guaranteed by the entire group. The objectives of both components are to increase income, generate new jobs and "reinforce and revitalize the present tenuous employment of low income service related workers" (Attachment A, April 22, 1981, OPG Agreement).

The record of the first six months operation of this small business promotion OPG program has been good. Ninety-three loans (only 43 were programmed) were made, 63 to solidarity groups and 30 to micro-businessmen. In addition to the USAID grant, the FDD was able to obtain another $411,600 in grants from the Inter-American Foundation (IAF) and Appropriate Technology International (ATI), plus a Central Bank line of credit for $1,000,000.* Specific information on the loan programs for these two distinct components are as follows:**

* In 1972, IAF made a grant of $500,000 to FDD to test directly some of the principles of the Moss Amendment. (See Page 12.) FDD attempted to induce banks to provide loans to its rural groups by guaranteeing 75% of loans made by banks to its rural credit groups in the first year, 50% in the second year, and 25% in the third year. During the fourth year the banks were to accept the groups as their normal clients based upon their repayment record. Even though the groups had a negligible default rate, the banks did not accept the groups as their clients after the experiment ended. However, Jaime Fernandez, Director of FDD, stated that the GODR established a guarantee program to accomplish similar objectives based upon this experience.

** December 9, 1981, USAID memorandum with attached summary of activities.

1. Solidarity Groups

   -- 63 loans approved for a total of $125,775

   -- 413 precarious jobs reinforced, indirectly benefitting 2,478 persons

2. Micro-businesses

   -- 30 loans for a total of $73,528

   -- 155 new jobs created

   -- through visits by the four coordinators, training has been given to 189 small businessmen

According to the "PISCES Studies" report of September, 1981,* there are three levels of enterprise: 1) Level I - Marginal; 2) Level II - Very Small; and 3) Level III - Small. The solidarity groups can be considered as fitting within the Level II description: "Very small micro-enterprises: owners of very small economic enterprises; net often near $1.00 per day; most appropriate type of program - Group." The small business section meets the Level III description: "Small micro-enterprises: established traders or artisan manufacturers; net often near $2.00 per day; most appropriate type of program - Individual."

I believe that the principal factors which have contributed to the initial and on-going success of this small business project are the following:

1. The institutional viability and efficiency of FDD were already established before the project began;

* The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor, Agency for International Development, edited by Michael Farbman, September, 1981, page 21.

also there was a long record of experience in managing credit programs, albeit in rural areas.

2. FDD's institutional purpose is clear and the new OPG small business project falls within its priority of interests.
3. The feasibility study provided necessary social, demographic and economic data on which an action program could be designed, monitored and evaluated.
4. There was no imposition of an institutional organization model on the project participants and even within the OPG project, the two component activities were kept separate and distinct. The equity-efficiency relationship was decided upon prior to implementation, i.e. more equity consideration in project design to the solidarity group component than to the small business component. The FDD has only brought credit and operational efficiency to the project, not any new productive technology. Future program services are geared to what participants decide and not to a preconceived plan of the FDD.
5. The unsecured credit program for both component activities are adapted from FDD's successful experience in rural credit. For the solidarity groups, FDD relies on group sanction and control for repayment. For the small businessmen, character and entrepreneurial ability are the key factors in repayment.

Closing Comments

Since the FDD was one of the pioneers in testing the original concept of rural credit using the informal group model and now is applying the lessons learned to urban programs, it would be useful to trace its institutional path in dealing with conflicts among the goals of equity, efficiency and viability in its earlier experiences. The lessons would be helpful to the new NDF's which are starting with small businesses in the cities and may soon be walking on similar ground in the rural areas.

V. THE IMPOSSIBLE TASK OF COST-BENEFIT ANALYSIS

None of the original OPGs in Costa Rica, Haiti and Jamaica require a cost-benefit analysis in the evaluation of progress. The second OPG in Haiti, signed on January 8, 1982, requires PADF's assistance in developing a cost-benefit analysis and baseline data. A review of previous eva' ation reports in Haiti and Costa Rica do not contain sufficient data to conduct this type of comprehensive social and economic analysis.

However, documentation on these OPGs does contain varying amounts of information on job creation, income generation, return on investment and cost of lending. A country-by-country analysis of these aspects follows:

A. COSTA RICA

1. Cost of lending - The May 1978 Proposal Justification and Summary by FUCODES states that "the cost of providing loans has been about $1.48 to $1.00 and it is FUCODES' expectation that this will be reduced to $1.00 to $1.00 or less."

   GAMCO, Inc. May 1982 Final Evaluation Review states that the administrative cost during the first project stage (September 1978 to June 1981) was "at least, 93 cents for $1 that was lent to the groups."

   No figures on cost of lending are available for the second stage.

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2. Income generation - The OPG end-of-project status indicators call for a 50% average increase in each participant's real income. No available data to determine if this goal was met. (GAMCO, Inc. Final Evaluation Review, page 32.)

B. HAITI

1. Cost of lending - The projected cost for delivering credit to amount loaned was $1.30 to $1.00 ($31,000 to $24,000) in the first year to $1.00 to $5.00 ($191,000 to $689,000) in the fifth year. Actual cost of lending by July, 1981, was $5,357 for every $2,056 loaned for a ratio of $2.61 to $1.00. Costs include PADF technical assistance.*

   The GAP report shows that HDF expended $3,157 for every $2,056 lent (excludes PADF costs) for a ratio of $1.54 to $1.00 as of November, 1981.**

2. Return on investment - The OPG planning documents assumed an average return on investment (ROI) of 20%. This ROI average is used by HDF to evaluate

* --USAID memorandum dated May 17, 1979, by Scott Smith, PD, to Lawrence Harrison, Director USAID/Haiti, presenting the Project Paper for HDF OPG, page 39.
--AID - Evaluation - Haitian Development Foundation (OPG # 521-0118), dated October 7, 1981, signed by Harland H. Hobgood, USAID Director, Haiti, page 19.
--AID memorandum from David Adams, DRE, to the Files, dated December 2, 1981, "Mission Review of Proposed Second Phase Haitian Development Foundation (HDF) OPG, page 2.

** Op.cit., page 25.

loans to small businesses. No figures are available to verify actual ROIs. As of July 1, 1982, HDF is required to prepare profit and loss statements on clients for subsequent evaluations.

3. Job creation - Although an implicit objective in the OPG project paper, no projections are forecasted. The Project Review Documents of the second OPG* refer to HDF's success in job creation. It was estimated that 204 new jobs were created from the 88 loans approved before June 30, 1981, at an average cost of $850 each per job. The report noted that this cost factor compares favorably to estimates of job creation costs in Haiti which are $3,000 per job according to a World Bank report. It was estimated that these jobs generated $122,400 in salaries per year. In Garcia-Zamor's evaluation,** he states the assumption that each loan creates two jobs is more acceptable than the four jobs per loan mentioned in previous evaluations. He also questions the assumption that each job brings about $600 yearly in new income in the Haitian context. Since reliable, verifiable data is not available, these figures are estimates.

* AID - Project Review Document OPG 521-0144, dated January 8, 1982, page 5.

** Op.cit., pages 23 and 24.

C. <u>JAMAICA</u> (Targets only)

1. Cost of lending - No specific estimates are given in PADF proposal, nor the OPG. On page 19 of the proposal, it specifically states that the per capita cost of delivering credit and technical assistance will be extremely high during the first year, but is expected to decline in four years once the NDFJ is fully operational. The revenues from loans and technical assistance will not cover all of NDFJ's operational costs in the foreseeable future.

2. Return on investment - The OPG expects a 35% rate of return on investment based upon Haitian and other NDF's experiences.

3. Job creation/income generation - The OPG estimates loans of about $2,000 will generate 1 to 3 jobs per client. It assumes that clients will have assests of $10,000 and fewer than 10 employees. Income generation for clients is expected to increase by 35%.

Unfortunately, the impossibility of undertaking a cost-benefit analysis to determine impact or benefits accrued is not restricted to this evaluation. This problem will persist unless baseline data is compiled before an OPG is made and procedures are devised and implemented to collect the required information throughout the life of a project to make a proper assessment.

In the August 11, 1981, AID evaluation of OPG 598-0587 to SOLIDARIOS which reviewed some of the more successful NDF's in the Dominican Republic, Guatemala, Nicaragua and Ecuador, the evaluators recommend that:

> "SOLIDARIOS should take the lead to define and design a standard information gathering procedure for all foundation members that will provide vital data and information for the development foundations as well as a ready source for /an/ impact evaluation."

Comments on PADF Costs under OPGs

As shown in the analysis section, PADF's costs in Haiti were high relative to local costs because of the employment of the HDF Executive Director on the payroll and USAID's recommendations to incorporate another PVO in the project to help with training and conduct the survey. The cost of lending figures programmed by AID ($1.30 to $1.00) were higher because of the expenditure of funds in two and one half years instead of three as planned and the deficits caused by fund raising activities.

In Jamaica no cost of lending target was projected. PADF's costs continue to be high relative to local costs because of the patterns established in Haiti and a lack of clarity over the external inputs of monitoring, technical assistance and evaluation. I believe that monitoring costs should not be included in calculating cost of lending because they distort the figures and are an operating cost of the funding agency. Also, some of the costs support other activities of the local NDF's which are not directly related to the loan portfolio, such as membership education and development, fund raising, etc.

In overall terms, AID has contributed from 1979 to 1981 $533,026-for Haiti ($494,531) and Jamaica ($38,495). Of this amount $195,853 or 36% covered PADF costs, including overhead, and $337,173 or 64% for local costs of the NDF's. When private contributions and total PADF costs for its development foundation program are added, PADF spent a total of $769,319. Of this amount $432,146 covered its general and overhead costs (56%) and $337,173 covered local costs (44%).* Since I have nothing to compare these figures with (other PVO's experience in similar programs), it is difficult to make a judgement on the relative costs of international versus local application of funds. My overall judgement, however, is that the international percentage is disproportionate to the amount of assistance that directly goes to the NDF. The higher costs of international technical assistance lowers the amount that could go to capitalizing loan funds.

* See Page 108-PADF National Development Foundation Program, Source and Application of Funds.

VI. FUND RAISING

The field inquiry section addressed PADF's performance in providing advisory services in fund raising to the Costa Rican and Haitian development foundations. As seen, this assistance was ineffective because of the unrealistic counterpart funding goals established in the OPGs and the concentration in risky local fund raising methods. Based upon this experience, PADF has put primary emphasis on the original concept of encouraging local contributions through membership drives and corporate donations. Once progress has been made in meeting these goals, funds through grants and concessionary loans are sought for the local NDF. In Jamaica, this strategy has been working.

In the Historical Perspective section it was pointed out that a tension exists between SOLIDARIOS and PADF over PADF's fund raising activities in the United States. Since PADF's Annual Reports and fund raising materials list the established NDF's and SOLIDARIOS, as well as the new foundations supported by PADF, they can, in my opinion, create the impression that the donors are contributing to the activities of all these institutions. Nevertheless, the funds collected by PADF are legitimately used to cover its operating costs and only for seed capital for the new NDF's.

While SOLIDARIOS has done little fund raising among U.S. corporations and foundations and depends heavily on U.S. Government monies, PACT, IAF, AID, SPTF/IDB, and the European Economic Community, PADF can only tap AID and private sector contributions in their fund raising.

Although PADF and SOLIDARIOS are discussing ways to alleviate these tensions and have collaborated in a fund raising seminar in May, 1982, the problem continues to exist.

In order to address these concerns, qualify for a matching grant from the AID Office of Private Voluntary Cooperation, and improve its capabilities in fund raising in the United States, PADF had reorganized its internal fund raising department, hired on staff a professional fund raiser in May, 1982, and retained the services of a professional fund raising management consultant firm. A report by Berryhill Associates entitled "Fund Raising in the Eighties" has been under study. PADF contracted Funderburke Assosciates which is presently preparing a report to assist PADF define its fund raising case; test the market to determine the potential support by donor foundations and corporations; enhance the PADF's image; and, develop a plan of action which elicits a clear commitment from PADF's Board of Trustees to take a leadership role in fund raising.

PADF's previous record in obtaining support from individuals and corporations to support NDF's has not been sufficient to meet PADF's recent attempts to expand its program. As the attached tables show (page 108), PADF obtained and expended $769,319 from 1979 to 1981 for its development foundation program. Of this amount $533,026 was obtained from USAID OPGs and $236,293 from U.S. corporate and individual contributions and donations from private foundations. The AID support through the OPGs represent

69% of PADF's total development foundation program and a ratio of $2.23 (AID) to $1.00 (PADF). If approximate figures for FUCODES and PACT monies are included under AID contributions rather than as PADF monies, the percentage and ratio would change to the following: 74.5% AID, 25.5% PADF and the ratio $2.83 AID to $1.00 PADF.*

In my conversation with the President of Funderburke Associates, he stated that PADF could be reasonably expected to raise $360,000 counterpart funds from U.S. private sources over the three-year period to support the $700,000 matching grant request to AID/PVC.** He specifically based this judgement on the assumption that:

1. PADF's Board of Trustees would take an active role in supporting a new and precise fund raising campaign.
2. A spirit of cooperation could be developed among local NDF's, SOLIDARIOS and PADF in this effort.

The Funderburke Associates reports will be finalized by the end of September, 1982.

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* See footnote under Source of Funds Table on Page 108.

** The total counterpart PADF has proposed in its July 15, 1982, letter to Thomas A. McKay, Director AID/PVC, is $800,000. The remaining $440,000 would be obtained from local contributions ($340,000) and other sources ($100,000). In a later conversation with the President of Funderburke Associates, he stated that PADF could raise $700,000 from U.S. sources.

PAN AMERICAN DEVELOPMENT FOUNDATION (PADF)
NATIONAL DEVELOPMENT FOUNDATION PROGRAM
SOURCE AND APPLICATION OF FUNDS
Calendar Years 1979 - 1981

SOURCE OF FUNDS

YEAR	AID	PADF	TOTAL
1979	$ 97,597	$ 53,044	$ 150,641
1980	273,606	62,609	336,215
1981	161,823	120,640	282,463
TOTALS	$ 533,026	$ 236,293*	$ 769,319

* Of the $236,293 shown as PADF private sector contributions, approximately $48,034 are AID monies from FUCODES ($21,003) and PACT ($27,031). This lowers private sector contributions to $188,259.

APPLICATION OF FUNDS

YEAR	GENERAL	OVERHEAD	SPECIAL PROJECTS	TOTAL
1979	$ 83,187	$ 5,407	$ 62,047	$ 150,641
1980	105,992	28,512	201,711	336,215
1981	138,168	70,880	73,415	282,463
TOTALS	$ 327,347	$ 104,799	$ 337,173	$ 769,319

AID CONTRIBUTION BY OPG

	HAITI (521-0118)		JAMAICA (532-0080)		
YEAR	GENERAL	SPEC.PROJ.	GENERAL	SPEC.PROJ.	TOTAL
1979	$ 35,550	$ 62,047	-	-	$ 97,597
1980	71,895	201,711	-	-	273,606
1981	64,913	53,415	$ 23,495	$ 15,000	161,823
TOTALS	$172,358	$322,173	$ 23,495	$ 15,000	$533,026

SUMMARY

YEARS	AID	PADF	TOTAL
1979-1981	$ 533,026	$ 236,293	$ 769,319
Percent	69%	31%	100%

NOTE 1: These figures were furnished by PADF and checked against audited Annual Reports.

NOTE 2: Based upon this analysis, for every $2.23 AID has contributed to PADF NDF programs, PADF has raised $1.00 from U.S. private sources. If approximate figures for FUCODES and PACT monies are included under AID contributions rather than as PADF monies, the percentage and ratio would change to the following: 74.5% AID, 25.5% PADF and the ratio $2.83 AID and $1.00 PADF.

VII. CONCLUSIONS AND RECOMMENDATIONS

In assessing PADF's role, relationship and support for national development foundations from 1974 to the present, I have tried to trace the origins of the problems and hopefully add to the solution through learning from the experiences. My overall judgement is that since 1974 to the present PADF has not learned from its previous experience and has not discovered accurately the institutional paths of the established NDF's which led to their relative success in credit programs, especially rural. Because of this vacuum in PADF's institutional learning and its relationship problems with SOLIDARIOS and some of the established NDF's, its overall performance from 1978 to 1980 in Costa Rica and Haiti was not, generally, satisfactory under the OPGs. The errors had their origin in PADF's paternalistic stance in its earlier experiences and in the planning stage in which the USAID Missions participated.

In the planning stage, USAID and PADF superficially joined the institutional goals of equity, efficiency and viability without sufficiently understanding the problems that conflicting demands can cause in institutionalizing credit programs to serve poorer sectors of society. If international program designers and funders would grapple with these issues more thoroughly instead of artificially joining conflicting goals, they could plan a different sequence for their programs to assist the lower 40% of the population.*

* "The Trouble with Goals of Small Farmer Credit Programs (And How to Get Out of It)," Judith Tendler, Berkeley, California, AID Spring Review of Small Farmer Credit, Volume XIX, June 1973, No. SR113, Small Farmer Credit Analytical Papers, pgs. 6 and 7.

Otherwise, the abandonment of the equity goals as occurred in Costa Rica is a predictable outcome.*

PADF's performance has shown improvement in 1981 as a result of the efforts of new management to correct some of the previous errors. This is particularly evident in PADF's latest experience in Jamaica. However, the lack of learning from past experience still exists, as shown by the confusion over group credit and lack of clarity over the institutional issues of equity, efficiency and viability. I think in the Haitian case this problem is acute.

The fact that PADF's technical assistance input is described in the OPGs as general advisory services, with the exception of PfP's training component, makes it difficult to isolate PADF inputs and causes problems with the new NDF after the institution is established and begins to operate on its own. In my opinion, the functions of evaluation, monitoring and specific technical assistance inputs

* "The difficulties of coping with equity-efficiency issues have been compounded by the policies of international lending institutions. Donor agencies, by requiring both equity and efficiency objectives..., have become like a microcosm of a nation's polity, generating conflicting demands from all sides. It is ironic that the development assistance world should have come to burden the decisionmaking process of developing countries with an intensification of the political problems that arise from trying to meet conflicting demands. Granted, the donor organizations may have their own political constituencies making equity demands from one side and efficiency from the other. But these organizations would better play their role by assisting borrower countries to work out the reconciliation of such demands, instead of encouraging their superficial and problematical pairing." (Ibid., page 7.)

should be clarified with the USAID mission from the beginning of the planning process so that mutual accountability between the new NDF and PADF is clear. This may help to alleviate later relationship problems.

PADF's comparative advantage as a PVO is its capacity to act as a coalescing force to mobilize private businessmen to structure and manage a national development foundation. PADF has no particular comparative advantage as a U.S. PVO in the specific field of small business development. This is why PfP was selected to conduct the training of the animateurs in Haiti and the loan officers in Jamaica.

The material service program is not inherently incompatible with the NDF program. However, as shown in the examples of Haiti and Costa Rica, these programs can cause relationship problems as a result of financial concerns. These programs can be disorienting to new NDF's in their initial stage while they are attempting to build an institution and begin a credit program.

Although PADF and SOLIDARIOS have reached a tentative understanding, a level of institutional rivalry exists and the outcome cannot be predicted. In my opinion, coordination should not be pursued if either organization has a strong preference to work independently of the other and a spirit of mutual cooperation cannot be achieved. However, if both organizations want to coordinate their activites, tension could be reduced if a coordinated strategy of fund raising is worked out.

The tension could be further reduced if PADF and SOLIDARIOS undertook a joint effort to learn from the successes and failures of the past. The differences concerning the issues of autonomy, group vs. individual lending, and the institutional goal conflicts, previously mentioned, are already part of the NDF experience.

The matching grant approach to establish NDF's is more appropriate than the individual OPGs through the different USAID Missions because this funding mechanism will enable:

1. PADF to utilize its comparative advantage as a PVO, whereby it intervenes in a developing country to coalesce private businessmen and encourage them to apply their business-oriented skills to structure and manage NDF's in support of unsecured credit programs.
2. PADF to focus and consolidate its recent expansion by assisting these new NDF's obtain a level of program planning and their autonomy before major outside funding occurs.
3. USAID Missions and other funders decide if the new NDF has acquired sufficient local backing and funds to merit support and what are the appropriate funding levels based upon this assessment.
4. The new NDF to decide on its own how best to satisfy its technical assistance needs from both local and external sources.

5. PADF to have the flexibility to be more responsive to the new NDF's.
6. A better accountability on the part of PADF to AID, instead of the splintering of responsibility of monitoring PADF's performance under different OPGs.
7. AID to challenge PADF to raise funds from U.S. corporations and individuals in support of unsecured credit programs. PADF could then equally place the challenge on local businessmen to match the U.S. support in establishing local foundations.

The national development foundation concept is as valid today as it was in the 1960's and 1970's. PADF, especially in its recent performance in Jamaica, has demonstrated its unique ability to coalesce committed businessmen and professionals to obtain local funds in support of unsecured credit programs. The FDD's solidarity groups program confirms the applicability of group sanction and control mechanisms for repayments in urban credit programs.

However, it must be kept in mind that the NDF's are not an end in themselves but a means to assit the poor. This assistance can be improved if the lessons of the past and present experiences are absorbed. Therefore I recommend that approval of a matching grant be contingent upon a learning approach* which would:

* Since IAF has provided about $14 million in grants to NDF's from 1972 to the present, I recommend that a joint effort by AID and IAF be undertaken to assist PADF and SOLIDARIOS in their learning efforts. The evaluation could also focus on the experience of the NDF's in influencing government institutions to establish guarantee and other incentive programs to assist small borrowers, since all parties have supported programs with this objective in mind. (See pages 13, 14 and footnote * on page 94.)

1. Determine the institutional paths that successful NDF's have taken to resolve conflicting demands in their pursuit of equity, efficiency and viability goals.
2. Provide information on the importance of utilizing adapted, indigenous forms of borrowing and savings in unsecured credit programs for groups to reach equity goal and assure repayment.
3. Compare the relative importance of technical assistance and credit as separate inputs in fostering small business development to test some of the hypotheses contained in the Pragma Corporation and Michigan State University studies.
4. Gather baseline data to undertake cost-benefit analyses and determine whether the individual and group lending programs are benefitting and/or adversely affecting the lower 40% of the population.
5. Provide periodic feedback to PADF and the new NDF's to permit program changes that would be beneficial to poorer borrowers based upon assessments of the impact of the credit programs.

ATTACHMENT I

LIST OF INDIVIDUALS INTERVIEWED

WASHINGTON, D.C.

AID/Washington, D.C.

Bureau for Latin America and the Caribbean
- Otto Reich, Administrator

- Office of Development Programs (LAC/DP)
  - David Lazar, Director
  - Paul Maguire, Special Projects, PVO
  - Roma Knee, Evaluation

- Office of Caribbean Affairs (LAC/CAR)
  - Susan Merrill, Barbados/East Caribbean Islands

- Office of Development Resources (LAC/DR)
  - Michael Loftstrom

Bureau for Food for Peace and Voluntary Assistance

- Office of Private and Voluntary Cooperation (FVA/PVC)
  - Austin Heyman, Deputy Director
  - Ross E. Bigelow, Chief OPNS/LAC/AFR
  - George Beloz

PADF/Washington, D.C.

- Robert B. Bravo, Member Board of Trustees
- Ron Scheman, President
- Edward Marasciulo, Executive Vice President
- Lewis Townsend, Vice President and Director Development Fdtns. Program
- Don Sodo, Director, Fund Raising
- Fernando Cruz-Villalba, Projects Manager, Development Fdtns. Program
- Paul Vaky, Projects Manager, Development Fdtns. Program
- Phoebe Landsdale, Programs Officer
- Peter Stevens, Director, Tools for Training Program
- Jaime Puccio, Director, Health Services Program

Funderburke Associates
- Eugene Funderburke, President

Development Group for Alternative Policies (Development GAP)
- Douglas Hellinger
- Stephen Hellinger

Partnership for Productivity (PfP)
- Jerry Glenn, Representative

SAN JOSE, COSTA RICA

USAID
-- Bastian Schouten, Assistant Director
-- Carlos Poza, OPG Project Officer

FUCODES
-- Jimmy Morales, Vice President
-- Ricardo Rojas, Former Director
-- Julio Gonzales, Director
-- Carlos Poza, Board Member

BELIZE CITY, BELIZE

USEMBASSY
-- George Fitch, Economic and Commercial Officer

NDF Steering Committee
-- Phillip A. Gallaty, Sr., Chairperson
-- Manuel F. Cuellar, Member
-- Jorge M. Auil, Member (Barclays Bank)
-- Allen McNab, Member

HAITI

USAID
-- Harlan Hobgood, Director
-- Aaron Williams, OPG Project Officer

HDF
-- Board
  -- Roland Acra, President
  -- Danielle St. Valliere, Secretary-Treasurer
  -- Robert Moise, Member
  -- Margaret Roussel, Member
  -- John Burns, Member
  -- Josette Deas, Member
  -- Rudolf Flambert, Founding President

  Staff
  -- Pierre C. Armand, Executive Director
  -- Pierre Moliere, Finance and Personnel Director
  -- Leopold Belanger, Promotion and Program Director
  -- Lionel Labissiere, Credit Officer Reponsible for Loans Control and Collection
  -- Robert Chancy, Credit Director
  -- Nancy Elie, Planning and International Relations Officer

HDF Evaluator
-- Jean-Claude Garcia-Zamor

Partnership for Productivity (PfP)
-- Jean Brisson, Representative

JAMAICA

USAID
- Jerome Hulehan, OPG Project Officer
- David Ryebach
- Roberta Mathies

NDFJ
- Board
  - R. Danny Williams, Chairman
  - Daphne Graham, Member
  - Linwood Graham, Member
  - Lloyd Hunter, Secretary

- Staff
  - Justin Vincent, Director
  - Michael Goldson, Field Officer
  - Eaton McMarrow, Field Officer
  - Waldon Smith, Field Officer
  - Annette Spence, Field Officer
  - Don Lee Hall, Peace Corps Volunteer

DOMINICAN REPUBLIC

USAID
- Aaron Benjamin, OPG Project Officer

FDD
- Jaime Fernandez, Director
- Julio Tejeda, Grupos Solidarios Credit Program
- Jesús A. Sosa R., Micro-Empresa Credit Program

SOLIDARIOS
- Board*
  - Luís José Alvarez, President (Dom. Rep.)
  - William Báez (Nicaragua)
  - Héctor Sapriza (Uruguay)
  - Saul Carreño (Mexico)
  - Enrique A. Fernández (Dom. Rep.)

  Staff
  - Enrique A. Fernandez, Secretary General
  - Jaime Ospina, Representante Regional

* I met the SOLIDARIOS Board Members at their Annual Meeting held in San José, Costa Rica in July, 1982.

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