

**THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
and  
THE PRIVATE VOLUNTARY COMMUNITY**

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**POLICIES FOR A MORE EFFECTIVE PARTNERSHIP**

A Report to the  
Administrator of the Agency for International Development  
and the  
Advisory Committee on Voluntary Foreign Aid  
from a Joint Task Force established by  
the Agency for International Development and InterAction

December 6, 1993

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### **Attachments:**

~~Tasking memorandum from Office of the Administrator of USAID  
Working Group Papers No. 1 - 6  
List of Working Group Participants~~

### **Executive Summary**

This is a Report of a joint PVO/USAID Task Force. It summarizes the work of six Working Groups established at the request of the Administrator to review Agency relations with the

PVO community. The Report is a resource document and the intended basis for revision in Agency-wide policy dealing with PVOs and NGOs. It is also a vehicle for putting forth a series of specific recommendations designed to improve the effectiveness of the USAID/PVO relationship and the impact of USAID resources. The Report concentrates primarily on development issues and does not deal directly with humanitarian relief and food assistance.

USAID and the PVO community share similar values and objectives. They have developed a strong working relationship consonant with the professionalism and maturity of the PVO community and the changing priorities, structure and capacities of America's foreign assistance program. PVOs and many NGOs have strong areas of substantive advantage that complement and are fundamentally compatible with USAID's areas of program concentration.

The program priorities of foreign assistance and the interests of the PVO community overlap and provide a broad arena for collaboration. The principal challenge in the relationship is how to most effectively utilize PVOs and NGOs to achieve development objectives. In this respect, a central conclusion of the Task Force is that the congruence of objective between USAID and the PVO community can be deepened, sustained and better defined through a structured process of consultation and dialogue. PVOs will be more effective if they have better and more comprehensive communications with USAID at all levels, from the center to field units and from large policy matters to project design.

This Report deals with three sets of closely related issues:

- \* **Program focus, balance and direction**, including the growing role of NGOs, the importance of capacity building in relation to the achievement of program objectives and the overall validity of USAID/PVO collaboration in well defined concentration areas.
- \* **Administrative systems and procedures**, including registration, negotiation, procurement and oversight.
- \* **New and innovative funding mechanisms**, including better ways to program USAID resources, new funding vehicles, additional sources of support and an altered approach to cost sharing.

The Report identifies **policy principles** which are intended as the primary basis for construction of the new USAID policy statement. These derive from an analysis which reflects the **shared perspective** of representatives from both USAID and the PVO community and that provide the basis for **specific recommendations** which the Task Force believes should be acted upon regardless of progress on developing new policy guidance.

With regard to program focus, balance and direction:

- \* **USAID program focus is desirable and USAID's program priorities should**

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- define the parameters for engagement with the PVO and NGO communities:** The Task Force believes that USAID's effort to prioritize and concentrate its scarce development resources is fully compatible with an effective relationship with the PVO and NGO communities and that USAID program objectives establish a broad arena for substantive collaboration.
- \* **Institutional capacity building for PVOs and NGOs is an essential component of a focused and results oriented development strategy and integral to the concept of sustainable development.** At the same time, the Task Force believes that institutional strengthening should be limited to achievement of clear substantive program goals that are linked to USAID's areas of concentration.
  - \* **USAID should capitalize on the growing role, importance and ability of indigenous non-governmental organizations.** Working with local groups strengthens the likelihood of sustainability, promotes institutional pluralism, builds a base for democracy and takes advantage of local insights and understanding. American PVOs have an important bridging role in helping indigenous organizations build their capacity. Partnership relations are valuable to both parties because they provide a two way flow of learning and information. A tandem relationship can be a particularly valuable resource to USAID because it provides effective access to local organizations through the proven administrative capacity of an established PVO.

With regard to administrative systems and procedures:

- \* **The Task Force concluded that the current registration, procurement, grant negotiation and oversight system is a significant impediment to the USAID/PVO partnership and that it reduces the effectiveness of USAID resources and of PVO performance.** The Task Force believes that the system is redundant, costly, stifles risk taking, adversely affects project performance and does a poor job of monitoring prudent use of federal funds. Comprehensive restructuring of these systems and procedures is essential. The Task Force makes a variety of specific suggestions in this area and recommends that they be considered on an urgent basis in order to improve the climate of relations and sustain the momentum begun through the Working Group process.

With regard to new and innovative funding mechanisms:

- \* **USAID's scarce resources for PVOs and NGOs can be programmed more effectively and new funding sources can be located and tapped.** This requires an innovative approach willing to deal with the constraints that hamper creativity and adoption of new techniques. The Task Force

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recommends greater deployment of PVOs and NGOs as intermediaries after USAID departs, the use of PVO and NGO development foundations, expanded use of umbrella grants, increased use of "rolling " project design and project buy-ins. The Task Force believes that additional development resources can be leveraged through debt swaps, joint funding arrangements and increased collaboration with the private sector.

With regard to **cost sharing**, the Task Force respects the principle but believes that it should be related to project effectiveness and applied in a flexible and case specific manner. New policy guidance should be issued that provides that cost sharing decisions be made at the mission level and on the basis of a flexible set of policy parameters that ensures consistency and equity.

## **Introduction**

The Wharton Task Force on foreign assistance observed:

It is time for a reinvigorated sense of idealism, a sense of purpose, and a sense of mission that puts people first at home and abroad. The opportunity to put into practice what the Cold War often precluded is now upon us. We have entered an era, not of foreign aid, but of cooperation and collaboration -- cooperation with other donors and collaboration with people to assist them in becoming what they have always desired; to be the instruments of their own progress.

Programs should be designed to benefit all segments of society and involve non-governmental organizations (including private voluntary organizations, cooperatives and credit unions) to the extent possible.

This report deals with those policies and practices of the Agency for International Development (USAID) that provide a framework for relations with the private voluntary

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community (PVOs).<sup>1</sup> The Report synthesizes the work of six joint USAID/PVO Working Groups and is designed to serve as a resource to the Agency as it undertakes the task of reviewing, revising and re-issuing policy guidance pertaining to relations with the private voluntary sector in this country and in those countries where USAID operates.

USAID's policy toward private voluntary organizations (including Cooperatives and Credit Unions) is currently set forth in a policy paper that was written in September, 1982. Since that document was issued, there have been dramatic changes in the global context in which foreign assistance operates and in the content and structure of the foreign aid program itself. The programmatic orientation of the U.S. private voluntary community has shifted to reflect the new challenges that the world faces. At the same time, indigenous non-governmental organizations (NGOs) have emerged as powerful and effective agents in their country's development process. These changes have important implications with respect to the manner in which the Agency operates overseas and for the role that American private voluntary organizations play in the developing countries.

The relationship between USAID and the PVO community is based on fundamentally similar values. At the same time, PVOs are private entities with their own skills and uniquely individual goals while USAID is a government agency whose development objectives are shaped by the pursuit of long term foreign policy concerns. Inevitably, tensions and points of difference arise. While PVOs and USAID can and do function in a partnership relation, the strength of the PVO community resides in its free and independent capacity to offer a different view and an alternative perspective.

USAID deals with the PVO community and with indigenous NGOs through a complex Agency wide programming process and a variety of funding mechanisms. A decentralized organizational structure coupled with delegation of decision making complicates the variety of relationships. Currently, and for the foreseeable future, the Agency operates under very severe budgetary constraints. Increments in one area inevitably lead to reductions in another. This means that precision and clarity with respect to program objectives is critically important as USAID struggles to deploy its resources to maximum effect. Both because of the complex nature of the relationship and because of the importance of maximizing resource impact, **clear and direct central policy guidance with respect to PVO and NGO relations is essential.**

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<sup>1</sup> A note on terminology. The term private voluntary organization or PVO refers to charitable organizations based in the United States that are active in relief and development activities overseas. It includes cooperative development organizations. Many but not all of these organizations are registered with USAID. The term non-governmental organization or NGO is an umbrella term that refers to the wide assortment of local and indigenous organizations that operate and are based in the developing countries. While the NGO category covers all forms of charitable endeavor, in this report the acronym refers to indigenous groups that have program interests primarily in the areas of relief and development.

The Administrator of USAID has given high priority to working more effectively with PVOs and with indigenous non-governmental organizations. He has directed that the Agency prepare new Agency-wide policy guidance and has requested that representatives of the private voluntary community be included in the process of developing these guidelines.

To that end, a sequential 4 step approach has been designed. It includes:

- \* Creation of a Task Force divided into six working groups comprised of and co-chaired by representatives from USAID and the PVO community to focus on specific aspects of the USAID/PVO relationship.
- \* Preparation of a Summary Report that would synthesize the conclusions and recommendations of the working groups and that would form the basis for review and comment from the PVO community and ultimately from the Advisory Committee on Voluntary Foreign Aid.
- \* Review and comment by the Advisory Committee on Voluntary Foreign Aid.
- \* Preparation by USAID of a revised PVO policy paper drawing on the Summary Report as a resource document.

This document constitutes step two of the process.

The core of this Report is divided into 7 sections. The first section discusses the strategic role of PVOs and NGOs in the development process. Section 2 discusses the policy framework for the AID/PVO relationship and PVOs as private entities or intermediaries for USAID. Much of this section is derived from the paper prepared by the first Working Group and has broad conceptual application across all aspects of the Report. The subsequent 5 sections correspond approximately to those topics addressed by the Working Groups.

Each section of this Report contains a statement of **Policy Principles** followed by a series of related **Recommendations**. It is the intent of the Working Group Task Force that the Statement of Policy Principles be drawn upon in preparing USAID's revised policy guidance.

With respect to recommendations, in a few cases, the Task Force recognizes that further action is not feasible until revised policy guidance has been officially issued. However, in many instances the Task Force believes that positive steps can be taken to adopt or further research the important recommendations contained in this Report. The Task Force fears that unless this is the case, much of the momentum and energy behind reform of the Agency's relationship with the PVO community will be dissipated. **This is particularly true with regard to streamlining the registration, procurement and oversight system which has become so counterproductive to a healthy working relationship between USAID and the PVO community.**

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**Accordingly, the Task Force recommends initiation of a coordinated two track process. The first track would constitute preparation of revised Agency-wide policy guidance on PVOs and NGOs. The second would involve a series of coordinated efforts to review, adopt and implement the specific recommendations set forth in this Report.**

Finally, while many of the principles are applicable, this Report does not deal extensively with the specific modalities of humanitarian relief and with the policy implications of the continuum between relief and development. This subject is being addressed by another working group. The result of that parallel effort should be integrated with the process that culminates in issuance of new policy guidance.

### **Section 1. The Strategic Role of PVOs in the Development Process**

The content and direction of America's foreign assistance program are shaped by external events and conditions. The world has changed dramatically in the last ten years and the U.S. foreign assistance program has changed to reflect that altered environment. Many of these developments are related to the role of private voluntarism and to the relationship between USAID and the private voluntary community.

The end of the Cold War and the bi-polar world of geo-political foreign policy has opened an era of turbulence and complexity. New countries and newly empowered minorities and ethnic groups have emerged. Civil disturbance accompanied by the creation of large refugee and displaced populations is increasingly common. Growing interdependence among nations has underscored the importance of crosscutting global issues that affect all peoples. At the same time, democratic systems or at least a desire for open and participatory democratic processes appear to be in ascendance.

There has been a worldwide expansion in the level of voluntary activity and in the number and variety of non-governmental organizations. The ascendance of the non-governmental sector is a striking phenomenon of the post Cold-War era. Its emergence has been fueled by the shift toward democratic forms of government, the opening of hitherto closed societies, a heightened awareness of the importance of community solutions to social problems and a growing understanding of the link between local and global issues. American PVOs have themselves played an important part in stimulating the growth and vitality of the non-governmental or independent sector in many countries.<sup>2</sup>

Reflecting these changes, the focus of the foreign assistance program has shifted to relevant global problems such as strengthening the prospects for democracy, dealing with international

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<sup>2</sup> The term "independent sector" refers to the totality of those private not for profit organizations that function independent of the government and the private commercial sector.

environmental issues and greater and more concentrated attention to problems of health and overpopulation. The change in direction has included a shift away from bilateral government to government interventions to greater emphasis on the private sector, including the growth of open market systems and the establishment of an institutional framework appropriate to the healthy growth of commercial activity.

America's private voluntary organizations have matured. Most are professional, well managed organizations with a sophisticated understanding of the development process and an in-depth knowledge of the countries where they operate. They have developed strong technical competence in their areas of concentration and those that work with USAID have acquired a comprehensive understanding of government procedures. A considerable number have cultivated and invested in forming strong partnership relations with indigenous organizations. This has had a two way benefit, strengthening the managerial capacity of local groups while providing a funnel of knowledge and experience to shape the programs of the American organizations.

Reliance on PVOs and on the growing competence of indigenous groups is wholly consistent with American values and belief in the comparative advantage of the private sector. PVOs have a credibility with the American public often lacking with government institutions. They reflect American principles of pluralism and diversity, and they provide a vehicle for this country's instinctive compassion and strong humanitarian impulse. Importantly, private voluntary groups tap significant financial resources for development that would otherwise not be available.

But private voluntary organizations have their limitations. The private voluntary community is immensely diverse and generic conclusions with respect to institutional strengths can be misleading. Traditionally, voluntary groups have been strong in handling community projects, less so when it comes to operating at the national policy level. Some are poorly funded and understandably lack the managerial and administrative support systems required to backstop large USAID activities. Some groups do not wish to accept USAID funds and some do not want to work through an indigenous organization -- increasingly important in the current environment. Despite these caveats, private voluntary groups and their indigenous non-governmental colleagues provide an immensely valuable institutional resource to USAID in pursuit of its development goals.

## **Section 2. Policy Framework for the USAID/PVO partnership**

The relationship between USAID and the PVO community is based on considerable consensus with respect to development approaches:

- \* A commitment to people-centered economic, social and political development and an appreciation of the importance of community based solutions to social and economic problems.

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- \* A consensus that effective development and sustainable development are synonymous.
- \* Agreement on the importance of a flourishing private sector both as an engine of economic growth and as a repository of the principles of democratic pluralism.
- \* Agreement that participatory development strengthens the fabric of the civil society and provides the opportunity for broad based, equitable growth.
- \* A commitment to the principle of self-help and a belief that people in the developing countries want to improve their lives.

There is broad agreement that PVOs have several comparative advantages including:

- \* Proven experience and expertise in the design and implementation of community based development strategies which directly impact the lives of poor people.
- \* A unique ability as private organizations to understand, relate to and work with non-governmental organizations so that they can play a larger, more effective role in addressing their country's development needs.
- \* A high degree of technical expertise in certain specific areas such as family planning, child survival, community based agricultural projects, natural resource management and medium and micro enterprise development.
- \* Access to local leaders and a depth of insight and understanding of the country situation often not available to official government entities.
- \* A low cost, flexible and often innovative operating style which allows PVOs to function in remote and difficult areas and to respond quickly to changing conditions and challenges.
- \* A strong managerial capacity to assess, organize and manage the provision of humanitarian relief in times of civil strife, famine and natural emergency and to manage the difficult transition from relief to development.
- \* An ability to explain the consequences of global interdependence and to strengthen the American public's understanding of the importance of sustainable development to this country's future prosperity.

There has been an ongoing debate within USAID regarding the appropriate balance between

support for PVOs to pursue their own goals or whether the Agency should view PVOs as instrumentalities to achieve Agency objectives. The issue has appeared to be of particular importance as USAID has attempted to prioritize and sharpen its goals. It is a debate made especially problematic and potentially divisive because it touches on questions of institutional autonomy, on the balance between central and regional funding and on the appropriate use of different procurement vehicles.

The Task Force concluded that the issue derives from a misleading dichotomy that currently overstates the conflict between the goals of the Agency and the goals of the PVO community. The Task Force believes that the program objectives of the development assistance program and the goals, programs and style of operation of the private voluntary community currently overlap to a significant degree. This congruence of interest and approach provides a broad arena for substantive collaboration and permits a variety of funding relationships. **In sum, the pursuit by USAID of its goals and priorities is substantially consistent with support for the goals and priorities of the PVO community.**

Over the long run, USAID's development goals will shift to reflect changing world conditions. The PVO community can make a positive contribution to this evolutionary process. Changing USAID priorities will also inform and help to shape the shifting priorities of the PVO community. This interactive process can be constructive and mutually beneficial if the principles of privacy and independence are scrupulously observed and if standards of accountability are maintained.

In summary:

**The Task Force feels strongly that the central challenge that USAID and the PVO community face is not how to balance between PVO goals and USAID goals since these are already largely compatible but how to most effectively utilize the PVO/NGO experience and expertise in formulating and pursuing development strategies and country priorities.**

To do this, it is absolutely essential to structure and sustain frequent, active and open communication between USAID and the PVO community both at the center and at the country level to ensure compatibility of purpose and as a basis for a strong working partnership. The Task Force believes that USAID must make a stronger effort to ensure that this takes place.

The Task Force respects the importance of delegating authority to mission directors and the validity of country based development strategies. At the same time, this structure can and should be more open and responsive to the views and insights of both indigenous NGOs and PVOs. This can be done in a manner which does not undercut the final decision making authority of senior officials or compromise sound principles of responsible management.

The Task Force believes the following **policy principles** should guide the relationship

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between USAID and the PVO community:

- \* Maintenance of a meaningful, interactive dialogue between USAID and the PVO and NGO communities will ensure a broad congruence of basic principles and programmatic objectives.
- \* USAID's policy making apparatus should be structured to ensure appropriate and relevant in-put from the PVO community in a manner that does not compromise the independence of either and that is consistent with the identity of PVOs as private entities and the role of USAID as an agency under the foreign policy guidance of the Secretary of State. It should be structured in a manner that will appropriately incorporate the views and perspectives of indigenous non-governmental organizations.
- \* USAID missions and operating bureaus should establish a regular, ongoing and planned consultative process with a broad cross section of the PVO and NGO community to draw upon their views, insights and suggestions prior to the preparation of strategies and the design of programs and projects.
- \* The consultative process should be open, comprehensive and candid. It should be more formal and systematic than is now the case, integrated with the USAID planning process and deliberately structured to assist in the shaping of programmatic priorities.
- \* USAID and the PVO community should engage in an ongoing policy dialogue to address USAID's four strategic objectives, their implementation, performance measurement and evaluation of progress.

In order to put these principles into effect, the Task Force offers the following specific **recommendations**:

- \* The Administrator should issue detailed guidelines to operating bureaus and field missions that establishes a framework for interactive dialogue with relevant PVO and NGO institutions.
- \* That guidance should outline principles that should guide a formal process of consultation with appropriate and relevant PVOs and local NGOs that is systematically integrated with the USAID planning and programming process.
- \* The importance of the Advisory Committee on Voluntary Foreign AID should be elevated and its scope should be broadened. The Committee should report directly to the Administrator both in form and substance. It should work and coordinate closely with the USAID policy office when policy matters are

involved. The composition of the Committee should include individuals from organizations that are not funded by USAID and the focus of the Committee should be altered to ensure that the views and insights of indigenous NGOs are reflected in its deliberations. In addition it should be provided with more adequate staff support than is currently the case.

### Section 3. Building Institutional Capacity

Building institutional capacity is a constant, long term, evolutionary process which helps an organization articulate and achieve its work objectives. Capacity building can involve basic operations and management systems, the strengthening of technical or sectoral expertise or the building of strategic competence. Capacity building is as important for large well established organizations as it is for the small neophyte.

Funds for capacity building are hard to obtain because donors prefer to invest in outcomes and final results. However, organizations that do not regularly invest resources in adjusting and strengthening their capacity to function will become incrementally marginalized.

To what degree the Agency should allocate scarce resources to building institutional capacity has been an issue of some controversy. It is particularly problematic as USAID sharpens its focus on a few key goals. An **exclusive** concentration on final results implies limited attention to long term capacity building and predominant reliance on established expertise. It also suggests reduced attention to working directly with indigenous NGOs who frequently need managerial assistance. On the other hand, an emphasis on **sustainable development** implies the creation or strengthening of institutional capability to ensure that benefits remain and that positive lessons are replicated.

The Task Force believes that support for institutional capacity building is an essential component of a focused and results oriented development strategy and integral to the fundamental concept of sustainable development. The Task Force strongly supports increased program concentration and a stronger emphasis on impact and results. But it believes **these objectives cannot be achieved unless the Agency is willing to continually invest in strengthening the competence of private sector institutions in those societies where it functions.**

- \* An investment in the institutional capacity of PVOs and NGOs will significantly increase the developmental impact of USAID program funds allocated through these organizations.
- \* Stronger organizational competence means a stronger and more viable independent sector, so critical to creation of democratic societies.
- \* Improved PVO/NGO capacity is particularly important at a time when USAID

is considering a reduced direct presence in a number of countries.

- \* Funds for long term institutional development are extremely scarce. USAID support for capacity building fills an important void and will have a significant incremental impact on PVO and NGO performance.
- \* Capacity building is particularly important as American PVOs enter a critical period of transition involving a shift from implementation to the facilitation of NGO development.

**While the Task Force strongly supports the need for institutional strengthening, it also believes that capacity building should be related to achievement of clear substantive goals in USAID priority areas.<sup>3</sup>** Generic strengthening of an institution's ability to perform effectively without reference to a program objective is a dilution of the Agency's scarce resources. Its impact is difficult to measure and likely to be less effective than more targeted interventions that have a clear purpose in mind.

The Task Force considered three alternative models for improving the institutional capacity of the PVO/NGO sector:

- \* **Direct Institutional Support to Indigenous NGOs.** This form of support is consistent with the shift toward growing reliance on NGOs and with the emphasis on pluralism and the strengthening of the independent sector. USAID priority areas, particularly building democracy, provide ample flexibility to build institutional capacity but within a defined area of concentration. There is a substantial need for this type of assistance.
- \* **Institutional Support to Indigenous NGOs through U.S. PVOs.** This form of support will accelerate the changing role of U.S. PVOs, support the formation of viable independent sectors, strengthen the ability of local NGOs to increasingly act as implementing agents and enhance the prospect for sustainable development at the local level.
- \* **Direct institutional support to U.S. PVOs.** This form of assistance will result in a greater PVO ability to implement development assistance projects within USAID priority areas. It will increase USAID's confidence in PVO management capability, help PVOs deal with USAID's funding requirements

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<sup>3</sup> These currently include broad based economic growth, protecting the environment, population and health, and building democracy. The latter is particularly relevant to this discussion as USAID strengthens the capacity of indigenous organizations as part of a larger strategy of establishing the pluralistic institutional base so essential to a functioning civil and democratic society.

and help to counterbalance AID's reduced budgetary and human resources base.

With respect to capacity building, the Task Force developed the following **policy principles**:

- \* Strengthening the institutional capacity of PVOs and NGOs should not be regarded as an end in itself but as a necessary means toward achieving USAID programmatic objectives and should be justified on the basis of its contribution to achieving program goals.
- \* USAID should invest in helping U.S. PVOs build their capacity to assist **indigenous groups** where a strong partner relationship has been established and where the assistance will strengthen the ability of the local organization to function in USAID priority areas.
- \* USAID should invest in strengthening the institutional capacity of **American PVOs** where this will help these organizations be more effective in working in USAID priority areas and in forming collaborative relations with indigenous organizations.
- \* USAID should provide **direct assistance to strengthening indigenous NGO capacity** in those cases where USAID has the capacity to manage these programs and when the support is related to USAID program priorities.

#### **Task Force Recommendations:**

- \* USAID should support capacity building designed to achieve USAID goals through three mechanisms: directly to local NGOs; through U.S. organizations in order to assist indigenous groups; and directly to U.S. PVOs.
- \* Support should be provided across a broad spectrum from the installation of financial systems to staff development and leadership training to strategic planning.
- \* High priority should be placed on programs designed to strengthen the ability of U.S. PVOs to be more effective in their new facilitative role and in working with indigenous organizations.
- \* USAID's funding of capacity building should be structured to recognize the importance of flexibility and long term support.

#### **Section 4. Working with Indigenous Organizations**

The managerial competence of the thousands of new non-governmental organizations is mixed. Many are highly sophisticated, professionally managed institutions fully capable of assuming a leading role in their country's development and actively involved in policy analysis and advocacy at the national level. Others are in the early stage of institutional development and in the process of designing and installing the financial, managerial and planning systems that they will need as they mature and assume greater degrees of responsibility.

The emergence of a strong non-governmental sector in many developing countries presents both challenge and opportunity. For USAID, a stronger indigenous capacity provides an opportunity to pursue the Agency's development objectives while at the same time strengthening the private independent sector, so critically important to sustainability, the process of democratization and the strengthening of civil society. However, the complexity of the voluntary sector can be daunting. USAID has traditionally functioned on a government to government basis. Its approach and instrumentalities are geared to this relatively straightforward bilateral relationship, not to the institutional complexity of newly forming independent sectors.

For PVOs, the emergence of potential local partners is an opportunity to replicate effective voluntarism and to build an institutional base that will mirror the values and attributes of America's own independent sector. However, the growth of skilled, ambitious and strong willed indigenous organizations understandably interested in taking a lead role in their country's development and sometimes anxious to displace an expatriate presence presents a dilemma. On the one hand, offshore PVOs will increasingly be expected to play a less direct operational role in implementing projects and a larger facilitative role in supporting the institutional maturation of their local counterparts. On the other hand, many PVOs have the desire, skills and in-country capacity to continue direct operations. In addition, their funding base can be badly eroded if they are perceived to distance themselves from the needs of the populations that they serve. The shift in roles can be complicated by the debate over North/South power sharing and by local governmental antagonism toward the activities of outside organizations.

In many developing countries, American PVOs have moved actively to establish partnership relations with indigenous NGOs. These relationships have multiple benefits and are often characterized by mutuality and a two-way flow of learning, insights and information. They give the American organization credibility and access to local talent and resources and they give the NGO an opportunity to tap the expertise of an established institution.

The existence of a partnership relation provides an effective institutional framework for the management of development resources and a potential valuable resource that USAID can take advantage of and build upon.

With regard to working with indigenous organizations, the Task Force developed the following **policy principles**:

- \* If development efforts are to be sustainable, it is essential that they occur within the framework of a well established indigenous institutional capacity -- sustainable development is much more likely to occur in countries where there is a strong independent sector.
- \* The recent worldwide growth in voluntary activity and emergence of viable independent sectors in many developing countries presents USAID and the PVO community with a rewarding opportunity to improve the impact of development assistance resources.
- \* It should be USAID policy to actively encourage the formation of long term, durable partnership relations between PVOs and indigenous NGOs. American PVOs have important skills, resources and experience to offer new and maturing NGOs. At the same time, by providing access, credibility and an intimate understanding of local conditions, NGOs can be of immense value to PVOs as well as to USAID.
- \* As a corollary and as a matter of policy, USAID should be sensitive to and supportive of the shifting role of American PVOs. This should include positive support in articulating and fashioning a new set of objectives and programs.
- \* The existence of a network of durable partnership relations provides an institutional framework that USAID should utilize in pursuing its program objectives. This vehicle is likely to be cost effective, sensitive to local needs and sustainable over time.
- \* Where USAID wishes to **both** strengthen and work through local organizations, it should seriously consider allocating resources through an intermediary PVO in order to encourage the formation of partnerships and strategic alliances.

**Task Force recommendations:**

- \* USAID should increase funding in support of the formation of alliances and partnerships between PVOs and NGOs. Funds should be augmented in the areas of strategic planning; training; organizational development and capacity building (see above).
- \* USAID missions should be encouraged to develop a phased strategy leading to direct funding of indigenous voluntary development organizations that function in sectors that correspond with USAID priorities. The strategy should address the changing role of PVOs, the managerial competence of local organizations and the current and prospective nature of partnership relations between the two groups.

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- \* USAID should review and revise project preparation guidance and selection criteria and increase the emphasis and weight given to factors that will ensure sustainable impact. In this connection, the Agency should underscore the benefits that accrue from working through indigenous institutional capability. Guidance should deal with relative cost, community participation, replicability and sustainability.
- \* USAID, in collaboration with the PVO community, should develop guidelines and workable benchmark criteria for helping project officers evaluate the institutional capability of NGOs to determine their capacity to function in an independent relationship with USAID.

### Section 5. The Sharing of Costs

Cost sharing is a venerable principle in grant making. Virtually all private and governmental grant programs require some financial contribution from the recipient organization.<sup>4</sup>

The Task Force agrees that there are strong and valid reasons for seeking some degree of cost sharing from grant (or cooperative agreement) recipients. These include: the leveraging of funds from other sources; increased "ownership" and involvement of the organization in the activity; a stronger capacity to influence project direction and increased likelihood of sustained financial support. In addition, the contribution of non-USAID resources serves to reinforce its independence from government direction, and to preserve that freedom of perspective which is the distinguishing hallmark of private voluntarism.

The PVO community has been concerned with the administration of the Agency's cost sharing policy. The volume of private, unrestricted contributions to voluntary organizations is declining as donors allocate larger amounts to local organizations and earmark funds for specific purposes. It is increasingly difficult for PVOs to meet their cost sharing obligations and their attempts to do so can have unanticipated and undesirable consequences. While attractive in principle, rigid application of the cost sharing requirement has become increasingly problematic.

- \* Cost sharing requirements can accumulate and become an enormous burden with serious negative consequences including a limitation on the ability of the organization to bid on or accept further work in an important area despite both its and USAID's desire that it do so.

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<sup>4</sup> The Agency wide policy requires PVOs to pay 25 percent of the cost of an operational program grant. The contribution may be made in cash or in kind. The centrally funded Matching Grant program requires a 50:50 contribution reflecting the fact that an express purpose of this program is to leverage private funds for development purposes.

- \* Cost sharing obligations can force an organization to dip into operating reserves or endowment funds.
- \* The application of a single, centrally determined cost sharing formula may ignore unique situations and special cases. A PVO that can meet the cost sharing requirement is not necessarily more technically competent than one that cannot.
- \* Rigid cost sharing requirements appear particularly inappropriate in those instances where a PVO is responding to a USAID initiative or has been asked by USAID to take on a new geographic or sectoral responsibility.
- \* Finally, cost sharing to some degree duplicates the goals of the so called "privacy requirement". While that requirement (that 20% of funds be from non-U.S. Government sources) is aimed at preserving the privacy and independence of PVOs, it has a leveraging effect that is in many respects similar to that achieved through cost sharing.

**The Task Force believes that these are valid concerns.** While cost sharing objectives are legitimate and should continue to be pursued, they need to be modified through a greater emphasis on project impact and effectiveness. Additional concerns include the promotion of closer and more effective collaboration between PVOs/NGOs and USAID field missions, strengthening PVO/NGO institutional capacity and minimizing bureaucratic requirements.

The Task Force recognizes that individual cost sharing decisions cannot and should not be made in a policy vacuum and on an ad hoc basis. It is important that cost sharing decisions occur within a framework of clear standards in order to avoid endless and repetitive negotiation, ensure a reasonable degree of consistency and provide assurance of equitable treatment.

With regard to cost sharing, the Task Force developed the following **policy principles**:

- \* Cost sharing is a valid overarching goal and the principle of cost sharing should be retained.
- \* Cost sharing decisions should derive from a substantive assessment of the effect that cost sharing will have on project impact and institutional effectiveness. The cost sharing level should be determined on this basis, not derived from a centrally imposed formula.
- \* Decisions on specific cost sharing requirements should be made at the mission level for mission funded projects.
- \* While variation in cost sharing requirements should be encouraged, this should

be done within a flexible set of policy parameters that ensures consistency and equity.

**Task Force recommendations:**

- \* The Task Force recommends that USAID eliminate rigid, centrally determined cost sharing requirements in favor of decentralized decision making on a project by project basis.
- \* USAID should issue a new Policy Determination that would set forth clear cost sharing objectives and identify pertinent standards for application at the field level.
- \* That Policy Determination should itemize the factors upon which cost sharing decisions should be based including: impact on project design or implementation; impact on institutional health and viability; the extent to which the project is in response to a USAID request or initiative; the qualifications of the organization to effectively implement the project regardless of its capacity to meet the cost sharing criteria; possible distortions in fund raising strategy as a consequence of the cost sharing requirement.

**Section 6. Streamlining Procurement and Reducing Administrative Requirements**

There is agreement in the PVO community that effective oversight systems are essential to a partnership relation with USAID. Confidence in the existence of a system that will ensure accountability is critical to the maintenance of institutional independence. **Ironically, the current system has precisely the opposite effect.** Through a heavy handed, intrusive and complex process it tends to undermine the operational independence of organizations that receive support precisely because they are autonomous entities.

The Task Force conducted a thorough review of all aspects of the operational relationship between USAID and the PVO and NGO communities, including initial registration, negotiation of grant conditions, project implementation and final audit. **It is the conclusion of the Task Force that the process is redundant, excessively costly to both USAID and PVOs, stifles risk taking, adversely affects project and program effectiveness and does a poor job of monitoring and ensuring prudent use of federal funds.** Perhaps most importantly, **the current system creates a climate of antagonism and mistrust which has serious negative consequences with respect to achieving USAID's development goals.** The Task Force believes that the operational aspects of the AID/PVO partnership are sorely in need of fundamental reform.

The Task Force believes that the current system is deficient **both** with respect to its

individual components and with regard to overall structure and approach. For this reason, the Task Force recommends a comprehensive and integrated approach to reform that focuses on the interconnection between the various phases of the process.

- \* **The Registration Process.** The Task Force concurs with the need for a simple, "user friendly" registration process. The current system is labor intensive, time consuming and confusing. Most importantly, the registration process duplicates subsequent steps associated with negotiation and pre-grant award and neglects opportunities to introduce efficiencies:
  - . There is persistent confusion with respect to who should register and under what conditions registration is required.
  - . Registration takes considerable work and completion can often take up to six months. As a result, smaller PVOs and local NGOs are often discouraged from initiating the process.
  - . Annual re-registration has questionable utility and is time consuming because reporting requirements are constantly changing.
  - . Registration is similar to and duplicates much of the work related to pre-award review and the negotiation and audit process.
  
- \* **The negotiation process.** The negotiation process is unnecessarily time consuming, and driven by an excessive preoccupation with inputs as opposed to results. The instruments that USAID employs have lost their clarity and exacerbated tensions in the relationship between USAID and the PVO community.
  - . There is confusion with respect to the roles of the contract and technical officers. This leads to duplicative review, conflicting advice and endless referral.
  - . Anxiety with regard to audit vulnerability encourages excessive concentration on detailed programming of inputs and undercuts concern for project effectiveness.
  - . The distinction between the role and function of the three types of procurement mechanisms -- grants, cooperative agreements and contracts -- has become increasingly blurred. As a consequence USAID staff have, in some circumstances, become as directly involved in implementation of a grant arrangement as they are in the management of a contract.

- . Cooperative agreements, while useful, have been implemented in a manner that promotes conflict. These devices establish a grey area that allows "substantial involvement" of the Agency in implementation. Contrary to their original intent, they have been implemented in a way that has encouraged micro-management.
- \* **Project Implementation.** The USAID approach establishes a burdensome system of surveillance which stifles creativity and diverts energy from important long term program goals.
  - . USAID approval is often required for the most trivial action, such as approval of individual travel plans.
  - . There is duplication between systems approval and for individual actions taken under those systems.
  - . Relatively simple financial transactions such as small incremental funding decisions and no-cost project extensions consume inordinate amounts of time.
  - . The reporting requirement is not only extensive, but different grant programs have different reporting requirements.
- \* **The audit process.** Audit requirements tend to be burdensome, expensive, and preoccupied with trivia. They discourage small PVOs and act as a disincentive to U.S. organizations in working with indigenous organizations.

The Task Force has developed the following **policy principles**:

- \* The systems and procedures that constitute the operational relationship between USAID and the PVO community must be recast to support rather than impede the achievement of program objectives.
- \* The preoccupation with input management and the detailed review and approval of inconsequential management decisions needs to be replaced with a substantive concern for the achievement of fundamental goals.
- \* The registration, <sup>negotiation</sup> procurement, implementation and audit process needs to be simplified, streamlined and adapted to the unique attributes and characteristics of the PVO and NGO communities. The Task Force believes this can be done without adversely affecting principles of oversight

and accountability.<sup>5</sup>

- \* Effective reform of the system requires a comprehensive approach. Considerable effort should be focused on eliminating redundancies between the separate stages of the process.
- \* Lack of clarity with respect to the role, authority and responsibilities of contract officers and project managers needs to be corrected. The authority of the project officer needs to be equivalent to the assigned level of responsibility.
- \* There needs to be sharper clarity with respect to the role of cooperative agreements. This instrument should be used in the manner and spirit originally intended, not as a device to provide oversight and control.

**Task Force recommendations:**

- \* USAID should initiate a comprehensive and detailed management overhaul of the entire process with a view to eliminating redundancies, clarifying roles and responsibilities and simplifying requirements. That effort should include the following initiatives:
  - . The registration process should be both **simplified** with respect to documentation requirements and **extended** to include many of the downstream requirements imposed during the negotiation and implementation stages. The possibility of complete delegation of the registration of indigenous organizations to field missions should be investigated.
  - . Duplication between the review and approval of institutional systems and approval of individual transactions should be eliminated.

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<sup>5</sup> In this respect, the Task Force believes that the following excerpt from Section 123(a) of the Foreign Assistance Act is germane: "The Congress urges the Administrator of the agency primarily responsible for administering this part, in implementing programs authorized under this part, to draw on the resources of private and voluntary organizations and cooperatives to plan and carry out development activities and to establish simplified procedures for the development and approval of programs to be carried out by such private and voluntary organizations and cooperatives . . . ."

- . The role and function of contract and program staff during negotiation and implementation needs to be altered. Revised guidance should place heavy emphasis on the importance of a **team relationship. The authority delegated to project staff should be brought into line with their responsibility.**
  - . Attempts to develop a performance based evaluation system should be redoubled. The existence of such a system would encourage a shift away from an excessively heavy emphasis on inputs to an emphasis on results.
  - . Compliance requirements attached to grant awards should be relaxed to bring them into conformance with the fundamental nature of a grant relationship. Strong central guidance needs to be issued with respect to excessive involvement of USAID staff in implementation under grant agreements.
  - . Similar guidance needs to be issued with respect to cooperative agreements. These instruments should continue to be used in those situations where a close and collaborative working relationship is desired as in the case of a rolling project design.
  - . A considerable effort should be made to standardize and simplify reporting requirements.
- \* With regard to externally imposed compliance requirements, the Task Force is sensitive to the difficulty of changing federal regulations, despite the unique difficulties of operating overseas. However, the Task Force does recommend that USAID review its **interpretation and administration** of relevant externally imposed requirements to identify opportunities for simplification and flexibility and to ensure uniform application.

### **Section 7. New Funding Relationships**

The Task Force conducted a broad review of existing funding mechanisms, funding relationships and programming approaches. It concluded that there were significant opportunities for developing new funding categories, for improving the programming mechanisms by which funds are distributed and for supporting innovative mechanisms to leverage additional development assistance resources. In a related vein, the Task Force gave

serious consideration to the pros and cons of different ways of using PVOs as intermediaries in those countries where USAID is no longer directly functioning.

### **PVOs as Intermediaries**

The United States' development assistance presence is declining or terminating in a number of countries. This reflects changing foreign policy priorities, the gradual economic advancement of previous recipients, the need to prioritize because of budget constraints, and a decision not to continue engaging with poor partners. While this evolution is appropriate and inevitable, there are development costs associated with an abrupt termination of the foreign aid relationship and benefits associated with the maintenance of a modified U.S. presence.

There are several imaginative and cost effective mechanisms for deploying the skills and experience of the PVO and NGO communities in situations where USAID is compelled to reduce its presence. These range from a very close collaborative partnership whereby an American PVO takes over effective management of a jointly designed portfolio of development projects to USAID funding of an indigenous development foundation. Each approach has its particular advantages and each needs to be tailored to the particular country situation. Some have significant budgetary implications which will need to be addressed in a larger context.

#### **\* PVOs as Portfolio Managers**

This approach envisions the transfer of a USAID portfolio of activities to a resident PVO for management and implementation for a negotiated fee. It could be used in situations where USAID and the implementing PVO have a close working relationship and where the PVO has been involved in the articulation of USAID priorities. It applies both to situations where the intermediary is managing the phase out of previously funded activities as well as to situations where USAID would continue to provide infusions of assistance for previously designed projects. To be effective, it would require an agreement between USAID and the administering PVO that would judiciously balance between recognition of the PVO as a private, independent entity and continued pursuit of USAID development assistance goals.

#### **\* Regionally or Centrally Funded Country Grants to PVOs**

In this variant, the U.S. presence is sustained through a regional, or possibly central, USAID grant to an American PVO which in turn would make sub-grants to indigenous organizations. Grants would be within USAID priority areas. This approach would allow USAID to continue to pursue development objectives but be limited to those areas where local NGOs had strong abilities that overlapped with areas where USAID wished to continue to operate.

\* **Direct Funding of Indigenous Organizations**

This is difficult where USAID lacks a field presence. In theory, funds could be programmed through the Embassy or possibly through the proximate USAID regional office. It would be especially problematic where the NGO sector is highly complex, turbulent and politically active.

\* **A PVO Development Foundation**

USAID has successfully endowed country or regionally oriented foundations registered both in the United States and in individual developing countries. There are a variety of models and approaches. One promising variant would be establishment of a country based PVO development foundation that would function as an independent subsidiary of an established American PVO. Large endowments pose serious budget issues, although supplemental funds could come from debt for development swaps, local currency generations and matching contributions. The governance structure could reflect a mix of public/private and local/U.S. individuals and be designed to guide program direction consonant with USAID priorities. If carefully structured, this mechanism would sustain the image and reality of a positive U.S. presence at minimal administrative cost. A variant approach would be an NGO development foundation with funds under jurisdiction of indigenous foundation.

### **Improved Programming Mechanisms**

The Task Force believes that improvements can be made in the instruments that USAID employs to allocate funds to PVOs and NGOs and that new programming techniques should be developed to reflect current conditions and opportunities. The following approaches should be given serious consideration:

\* **Expanded Use of Umbrella Grants**

Umbrella grants involve a single grant to one organization with subsequent sub-grants to eligible NGOs. The approach provides an excellent mechanism to support indigenous institutions in USAID priority areas. There are a variety of management structures that can be adapted to the particular country situation. Because the effectiveness of this device is critically dependent on an understanding of the dynamics of the local NGO community, their participation in project design is essential.

\* **Rolling Project Design**

An adaptive or a "rolling" approach to project design can improve sensitivity to local conditions, provide the flexibility to concentrate on issues of primary importance, enhance collaboration and allow increased autonomy during implementation. However, it requires considerable institutional maturity -- strong financial management and evaluation systems, suspension of rigid project status measurements and an emphasis on substantive issues of performance and impact. Self confidence and mutual trust between USAID and the PVO community are essential. The Task Force believes that the concept of rolling project design should be tried cautiously through adaptation of the Design and Performance and Design and Deliver contact models.

\* **Increased Use of Project Buy-Ins**

Project impact is often hampered by the existence of long lead times from design to implementation, a tendency to favor large projects over small, the absence of relevant on-site information regarding other similar activities and a general unwillingness to attempt innovative approaches. These difficulties are reduced when a USAID mission can "buy into" an existing project either funded centrally or through another operating program. Buy-ins are flexible, involve lower overhead costs and encourage smaller, more sharply focused interventions. The disadvantage is that they require that the Agency allocate scarce discretionary funds to field missions in order to take advantage of opportunities when they arise.

**New Resources for Development**

The Task Force concluded that there are attractive opportunities to leverage additional development resources for use by PVOs and NGOs and within USAID priority areas. Although additional exploratory work is needed, USAID policy should be designed to advance and support these initiatives. The Task Force considered 3 variants:

- \* **Debt swaps**, involving the purchase and conversion of debt for local currency. The Task Force believes this is a poorly understood and inadequately explored area and that resource opportunities should be pursued more aggressively and systematically than is currently the case.
- \* **Joint funding** from non-U.S. sources to supplement PVO resources. USAID can be very helpful as a "broker" of possible funding relationships and in the process can augment funds for USAID's own goals. The constraints appear to be primarily procedural and administrative.
- \* **For profit, private sector activity** in a variety of forms from establishment of

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a subsidiary to collaboration with a commercial firm. While initiatives in this area are largely the responsibility of individual PVOs, USAID can assist in the removal of procedural and regulatory impediments.

The Task Force recognizes that many of the preceding initiatives can be further developed without reference to issuance of a new policy statement on USAID/PVO relations. At the same time, the Task Force believes that there are several basic **policy principles** regarding the development of new and improved funding devices which should be incorporated into the new policy guidance:

- \* USAID should review funding mechanisms and programming procedures in a regular and systematic fashion. New approaches should be developed to reflect evolving USAID priorities, and the changing nature of the USAID/PVO relationship.
- \* New and improved funding devices should be based on:
  - . A clear linkage to achievement of Agency goals:
  - . An objective assessment of relative institutional competence and comparative advantage.
  - . Increased willingness to try innovative solutions and accept greater risk of failure.
  - . A recognition of the importance of institutional capacity building and the allocation of adequate resources to support this important objective.
  - . Strengthening of mechanisms that support new organizations and experimental solutions.
  - . A strategy of growing reliance on the abilities of indigenous non-governmental organizations.
  - . A focused effort to reduce the lead time from the point of project concept to implementation.
  - . Substantive interactive participation between the PVO and/or NGO and the USAID office during project conceptualization and design.
- \* PVOs have an important potential role in transition situations and in maintaining a U.S. presence in former USAID recipient countries. This role needs to be tailored to the country situation, U.S. policy objectives, the experience and capacity of the PVO and the nature of the local independent

sector. Any arrangement that deploys a U.S. PVO as a USAID proxy or with a view to maintaining a U.S. presence must be sensitive to the importance of the independence and functioning autonomy of the participating institution.

**Task Force recommendations:**

- \* As a matter of policy, USAID should recognize the validity of working with and through a U.S. PVO in those countries where the Agency is contemplating termination of a mission presence. This policy should incorporate all appropriate caveats and cautions and establish principles for evaluating the pros and cons of different models.
- \* USAID should initiate a test of the concept of using an American PVO as an intermediary in a post-USAID situation. The 4 alternative models suggested in the Report should be tried and the results should be evaluated.
- \* USAID should prepare detailed guidance to field missions and operating units pertaining to increased use of umbrella grants, rolling project design and the project buy-in mechanism.
- \* USAID should assign functional responsibility for evaluating and pursuing mechanisms for augmenting development assistance resources to a central unit within the Agency.

A.I.D./PVO TASK FORCE

WORKING GROUP ONE

September 1993

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## A.I.D. - PVO PARTNERSHIP

"With the end of the Cold War the values and traditions of our own community-based experiences have gained increasing currency globally. People the world over aspire to the same opportunities -- to gain control over their own lives and their own destinies. If given the necessary social, economic and political freedom, they will create the opportunities to solve their own problems. To facilitate this process, the programmatic strategies and policy framework of the donor community must emerge from the local realities in the recipient countries themselves.

It is time for a reinvigorated sense of idealism, a sense of purpose, and a sense of mission that puts people first at home and abroad. The opportunity to put into practice what the Cold War often precluded, is now upon us. We have entered an era, not of foreign aid, but of cooperation and collaboration -- cooperation with other donors, and collaboration with people to assist them in becoming what they have always desired; to be the instruments of their own progress".

"Programs should be designed to benefit all segments of society, and involve non-governmental organizations (including private voluntary organizations, cooperative and credit unions) to the extent possible."

*Excerpts from the Report of the Wharton Task Force.*

### INTRODUCTION

The PVOs participating in the working group welcome the changes implied in the draft Wharton Report and endorse the spirit and intent of those changes.<sup>1</sup> Joint A.I.D. and PVO involvement in

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<sup>1</sup> For this paper, the terms PVO is used to denote U.S. private voluntary organizations active in international development (including cooperatives). The term NGO denotes non-governmental organizations indigenous to a particular country including NGO

setting A.I.D.'s policy, is the first step in reinvigorating the partnership. This partnership will allow both groups to better address the needs of people at the community level in recipient countries.

A.I.D. funds PVOs in a variety of ways and for a variety of purposes. In an attempt to answer the intermediary-vs-independent relationship question, the working group concluded that the most important issue we should address was not the relative merits of each type of funding relationship.<sup>2</sup> The issue we believe that A.I.D. needs to address is how A.I.D. and PVOs can best utilize the PVO and NGO experience in determining country development strategies.

The A.I.D.- PVO partnership will work within the framework of Section 123(a) of the Foreign Assistance Act which sets the foundation for the relationship:

The Congress finds that the participation of rural and urban poor people in their countries' development can be assisted and accelerated in an effective manner through an increase in activities planned and carried out by private and voluntary organizations and cooperatives. Such organizations and cooperatives, embodying the American spirit of self-help and assistance to others to improve their lives and incomes, constitute an important means of mobilizing private American financial and human resources to benefit poor people in developing countries. The Congress declares that it is in the interest of the United States that such organizations and cooperatives expand their overseas development efforts without compromising their private and independent nature. The Congress further declares that the financial resources of such organizations and cooperatives should be supplemented by the contribution of public funds for the purpose of undertaking development activities in accordance with the principles set forth in section 102 and, if necessary and determined on a case-by-case basis, for the purpose of sharing the cost of developing programs related to such activities. The Congress urges

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consortia as well as international non-governmental organizations.

<sup>2</sup> The term intermediary, as used throughout this paper, refers to the nature of the relationship between USAID and independent private voluntary organizations. It does not refer to the formal, legal status established by USAID to denote an organizations which is exempt from the "privateness test" usually required for all PVOs.

the Administrator of the agency primarily responsible for administering this part, in implementing programs authorized under this part, to draw on the resources of private and voluntary organizations and to establish simplified procedures for the development and approval of programs to be carried out by such private and voluntary organizations and cooperatives as have demonstrated a capacity to undertake effective development activities.

### Policy Framework

The policy framework of the A.I.D.- PVO partnership in development is based on the following common perspectives:

- o sustainable development implies a commitment to self-help -- a belief that people in developing countries want to improve their lives;
- o a shared commitment to people-centered economic, social and political development as well as to conservation of resources and to emergency relief and humanitarian assistance;<sup>3</sup>
- o the belief that participatory and democratic development strengthens civic societies providing the opportunity for broad-based and equitable growth; enhances advocacy for democratic solutions in complex and ethnically diverse settings; and provides for greater economic and political choice by individuals and communities;
- o the perception of a community of interests, based on shared beliefs and values in partner countries; and
- o acknowledgement that long-term self-reliance is the ultimate goal of development. To accomplish self-reliance, political, institutional and financial sustainability which work together to promote autonomy are imperative.

The premise for this policy is that the U.S. PVOs have many comparative advantages:

- o PVOs have proven experience and expertise in grassroots, bottom-up development strategies which directly impact the lives of poor people and they can bridge these indigenous groups with A.I.D.;
- o PVOs help articulate the needs of the civil societies and

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<sup>3</sup> Emergency relief and humanitarian assistance are not necessarily sustainable.

support the achievement of the society's objectives; and

- o PVOs may have advantages in identifying indigenous based participating organizations that reflect civil societies and in strengthening those groups.

The A.I.D.- PVO partnership informs and is relevant to the strategy, design, and implementation of A.I.D.'s programs, projects, and other initiatives. Specifically:

### Strategy

A.I.D. Missions, Bureaus, and representational and regional field offices will establish a regular, on-going and planned consultative process with a broad cross-section of the PVO and NGO community to draw upon their views, insights and suggestions prior to the preparation of strategies and design of programs and projects, as well as assisting A.I.D. in the measurement of the success of these programs.

**Implementation Action:** Ensure that Mission, Bureaus, and field offices establish regular, planned meetings with a broad cross-section of the PVO and NGO community.

PVOs and A.I.D. will be engaged in ongoing policy dialogue addressing A.I.D.'s four strategic objectives, their implementation, and the measurement and evaluation of their success. This engagement will be the primary responsibility of the Advisory Committee on Voluntary Foreign Aid, which will be represented by a broad cross-section of the PVO community and upgraded in its consultative role within A.I.D., reporting to the Administrator through the Policy and Program Coordination unit.

**Implementation Action:** Broaden the PVOs represented on the Advisory Committee to include PVOs not funded through A.I.D.

**Implementation Action:** Have the Advisory Committee report to the Administrator through the 1) Policy and Program Coordination unit for policy issues and 2) PVC for operational issues.

**Implementation Action:** Encourage the Advisory Group to develop mechanisms to consult with other groups such as NGOs, other donors, etc., on a regular basis.

As part of our mutual commitment to self reliance, capacity building is essential to carrying out development objectives. Programs and projects that accelerate the transfer of technology and development of indigenous capacity should be encouraged.

**Implementation Action:** Where appropriate and to the extent feasible, funding to PVOs should include a plan for NGO

strengthening leading to self reliance. This engagement should be planned to provide continuity.

**Implementation Action:** Develop common indicators that will measure the degree of capacity building that is being achieved.

### Planning and Implementation Process

In designing and implementing programs, projects and initiatives, each central and regional bureau and field office shall have active and open partnerships with appropriate PVOs and host country NGOs in their project planning and implementation processes. Regardless of the procurement mechanism, the relationship between A.I.D. and PVOs should be one of interacting independent partners. The independence of the partners should never be compromised.

**Implementation Action:** Whether PVOs are carrying out an A.I.D.-designed project or are carrying out a project of their own design for which A.I.D. funding is sought, mutual respect for partners' independence and a high standard of professionalism should be stressed by Agency and PVO leaders.

Through consortia and other arrangements A.I.D. will reach out to the rich and diverse resources of the PVO and NGO community to participate in the design and implementation process of all A.I.D.'s objectives,<sup>4</sup> consistent with (a) A.I.D.'s legal and ethical obligations to adhere to an inclusive and fair competitive process complying with federal procurement regulations, and (b) A.I.D.'s objective to continually improve the quality of program performance. A.I.D. will develop policies and procedures for this engagement as well as streamline PVO/NGO procurement reporting requirements and other procedures that could hamper the spirit of the partnership.

A.I.D.'s and PVOs' dedication to this partnership relies upon a concomitant commitment of the partners to qualitatively improve their program performance, including evaluation systems and criteria for measuring impact.

**Implementation Action:** Acknowledge that there are different perspectives from which A.I.D. and a PVO will approach management oversight, but the goal of both entities is results with accountability.

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<sup>4</sup> The objectives currently include population and health, environment, economic growth and democracy. PVOs have a contribution to make in attaining all four objectives.

## COST SHARING Working Group #2

### I. Summary

#### A. Introduction

The Foreign Assistant Act of 1961, as amended, establishes the basis for the A.I.D.-PVO relationship: "The Congress urges the (A.I.D.) Administrator... to draw on the resources of private and voluntary organizations and cooperatives to plan and carry out development activities and to establish simplified procedures for the development and approval of programs to be carry out by such private and voluntary organizations and cooperatives as have demonstrated a capacity to undertake effective development activities."<sup>1</sup>

Legislation passed in 1988 establishes a privateness requirement for PVOs that receive funding from A.I.D.<sup>2</sup> In addition to the privateness requirement, A.I.D. policy

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<sup>1</sup> Section 123, Foreign Assistance Act, as added by section 102(e) of the International Development and Food Assistance Act of 1978 (Public Law 95-424; 92 Stat. 941)

<sup>2</sup> Annual foreign assistance appropriation acts since fiscal year 1986 have required that a PVO obtain at least 20 percent of its funding for international activities from sources other than the United States Government in order to be eligible for development assistance resources. This requirement is mandated by Congress. It is a measure of a PVO's overall private support for international activities, and not tied to any specific A.I.D.-assisted activity.

The Senate Appropriations Committee proposed the PVO private funding requirement at 25 percent of overseas activities. In changing the requirement to 20 percent in conference, the Committee provided the following explanation for its action:

"Private voluntary organizations.-Private voluntary organizations play a vital role in the implementation of many parts of the U.S. Foreign Assistance Program. Because they are viewed as nongovernmental organizations, they are able to carry out work in a manner and in locations unsuitable for direct Government programs. It is their privateness that enables them to be so effective, and therefore, the Committee and Congress have been concerned over the years about the nature of the privateness of many of these organizations. Both Congress and the administration have, therefore, sought to establish at least on benchmark in this area, percentage of nongovernment funding versus Government funding received by these organizations. All of the benchmarks can be described as modest. Authorization legislation, reflecting administration views, has suggested a benchmark of 20 percent as a minimum private contribution, while the Appropriations Committees have suggested 25 percent. Appropriations legislation in fiscal year 1985 enacted the 25 percent, but this year the House Appropriations Committee has suggested a significant revision which would in effect render the 25 percent benchmark meaningless by allowing a blanket waiver authority to the Administrator of the Agency. The Committee might support the House language if the percentage were higher, but instead is suggesting a continuation of last years's provision.[S. Rept. No. 99-167, 1st sess., 61 (October 28, 1985)].

"The following are excluded in calculating the amount of Government support provided to a PVO with the effect of reducing the amount a PVO must obtain from private sources to satisfy this requirement: the value of contracts for providing goods or services to the Government; commodities furnished for overseas distribution and related transportation costs; and grants for A.I.D.-initiated  
(continued...)

requires PVOs to share the costs of A.I.D.-funded projects under certain circumstances.<sup>3</sup> This report considers only A.I.D. cost-sharing requirements, and does not address the legislatively mandated "privateness test" or the PVC Matching Grant Program, as these are not generally perceived to be problematic.

The Administration's initiative to consider recommendations on altering the cost sharing arrangement can build upon a series of discussions that began in 1989. At that time, A.I.D. and a group of staffers from 35 PVOs discussed the possibility of altering or eliminating the cost sharing requirements. Then, as now, questions are asked such as whether A.I.D. is achieving the original goals set when requirements were initiated, does PVO cost sharing really leverage private funds, and do requirements restrict collaboration?

For the current initiative, a greater consensus has now developed than existed in the 1989-90 period. There is widespread understanding that although cost sharing

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<sup>2</sup>(...continued)

activities (which include specific, legislatively-directed programs; grant programs that are not reserved exclusively for PVOs; certain kinds of organizations such as labor institutes and family planning agencies which established international programs at A.I.D.'s request; and programs in countries where assistance is provided through PVOs rather than by having a direct A.I.D. presence in the country)."

<sup>3</sup> A.I.D. has statutory authority to establish these requirements because section 122(a) and each of the funding authorizations in the Foreign Assistance Act of 1961, as amended, states that the President may furnish assistance on such terms and conditions as he may determine, and this authority has been delegated to A.I.D. in Executive Order 12163. (See also section 123(a) of the FAA, which discusses PVOs and private funding from United States sources.)

Cost Sharing is based on an Agency-wide policy that generally requires PVOs to pay 25 percent of the costs of operational program grants. The main features of this requirement are:

1. It applies to assistance provided to a PVO for a field activity initiated and designed by the PVO and funded by means of a grant or cooperative agreement.
2. The purpose of this requirement is to demonstrate that the recipient is committed to the activity and that the activity has a good chance of being sustained after A.I.D. support ends. The requirement also helps to leverage scarce U.S. resources to permit funding for a broader range of activities.
3. The contribution may be made in cash or in kind, although cash is preferred, and may include money, goods or services donated by project beneficiaries, local governments and international organizations.
4. The mission or bureau authorizing the project also has authority to waive the requirement of a contribution or to reduce its amount. Agency guidance states that there should be a strong justification for a waiver or reduction and provides some examples: the project supports a specific legislative initiative and the PVO does not expect to have independent sources of income; new or small PVOs without significant external sources of funding; PVOs established under A.I.D. projects.

The Matching Grant Program is administered centrally by PVC that was created in 1978 as a way of providing an incentive for increased private support for established field programs. A.I.D. believed fundraising in the United States might be improved if potential contributors knew that the United States Government would match their contribution on a dollar-for-dollar basis. Since the qualifications for participating in this program are higher than others and there is a significant private funding component, A.I.D. is less involved in matching grant programs. Waivers are not available for the match, however, because it is one of the fundamental objectives of the program and awards are made competitively with all applicants treated the same.

leverages private funds for PVOs and demonstrates independence from government, the cost sharing requirement also places growing pressures on the PVO community, particularly in a period of diminished private donations. There is also an understanding about the "cooling" effect the cost sharing pressures have on constituency building, when pursuit of larger grants from foundations/corporations cause neglect of the smaller donor, and the effect this cooling has on the considerable resources that the broad-based agencies bring to the table.

The PVO community also seems now to agree that there is little equity in the present arrangement, that cost sharing objectives must be met with flexibility (e.g. include ways other to determine PVO independence than merely looking to the percentage of funds raised from non-governmental sources), and that waivers must be more easily acquired, particularly if PVOs are going to be facilitating A.I.D.'s mission.<sup>4</sup>

## B. Recommendation

The working group recommends that cost sharing be maintained as an objective. However, the rigid, centrally-determined cost sharing requirements should be eliminated in favor of a policy providing for decentralized, project-by-project decision-making allowing for greater flexibility and opportunity for negotiations at the level of the approving official. The working group identified three variations on the policy for consideration by A.I.D, any one of which could be sufficient:

- (a) Extend A.I.D. PD16 on cost-sharing with non-governmental grantees, to PVOs.
- (b) Apply a variation of PD16, or a policy patterned after PD16, to cost sharing with PVOs. PD16 could be modified to emphasize that the appropriate contribution level will be negotiated between A.I.D. and the PVO, and that the value of the PVO's proposed activity and overall involvement in agency programs should be weighed together with its ability to contribute resources in particular instances.
- (c) Maintain cost-sharing as an objective, but make the application and level of cost sharing negotiable for every PVO-USAID agreement.

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<sup>4</sup> There are conditions and circumstances in which a cost sharing requirement may not be appropriate. These include, but are not limited to, institutions carrying out programs in support of specific provisions of the FAA or other legislative which have no independent source of income (e.g., labor unions, population groups, cooperatives, ATI).

## **II. Analysis of Key Issues**

### **A. Perceived Advantages**

The working group developed a list of perceived advantages of the cost sharing objectives for A.I.D. and PVO projects. These pertain regardless of the mechanism used to implement cost sharing. The perceived advantages include:

- demonstrates a greater degree of PVO "ownership" over programs that receive A.I.D. funding;
- differentiates between PVOs and contractors by emphasizing the partnership nature of the relationship with A.I.D.;
- encourages a leveraging of funds from individual, private foundation and corporate donors, and increases the impact of privately raised funds;
- increases the amount of money available to support a project;
- ensures a project is not totally dependent on A.I.D. funding, and to the extent part of the cost share is raised locally, provides local linkages for continued support.
- ensures PVO's active involvement in and commitment to program/project activities at about planned levels or better;
- limits A.I.D. financing for programs/projects to amounts which the recipients cannot obtain on their own or which is otherwise unavailable for such activities;
- mobilizes financial resources in addition to A.I.D.'s support for programs/projects;
- enhances the likelihood that recipients will continue project activities or otherwise work towards program goals after A.I.D. support ends, thereby contributing to an institutionalization and sustainment of program goals; and
- increases the coverage and effectiveness of A.I.D.'s limited overall budget resources.

### **B. Sources of the Problem**

The problems outlined in the introduction are come from three major sources: those caused directly by the regulations, those caused by the interaction of the regulations

with various institutional conditions, and those from causes external to the rules themselves or the organizations involved.

## 1. Rule Driven Factors

Cumulative cost sharing requirements are becoming a burden to many PVOs. It is not unusual for a PVO to have cost sharing obligations that total millions of dollars. Although individual cost sharing requirements may appear manageable in theory, they can exert enormous pressure on a PVO and influence its programming and resource allocation in unintended ways. This is counter-productive to the original objectives of the cost sharing mechanism. Examples of unintended effects of cost sharing requirements include:

- Cumulative cost sharing requirements can limit A.I.D. and PVO program options. A PVO may have to turn down an opportunity to undertake work with A.I.D. because it cannot assume further cost sharing obligations. For A.I.D., the unintended effect is that cost sharing requirements can limit the pool of potential PVO partners. Recently, several PVOs recently decided not to bid on two large A.I.D. programs because of what PVOs regarded as unreasonably high cost sharing requirements (the 25 percent cost share exceeded \$2 million in each case).
- Cost sharing requirements can distort programming priorities for A.I.D and PVOs. The PVO that must allocate unrestricted private resources -- its most precious resource -- the weight of a fixed cost sharing requirement for A.I.D.-funded project activities impedes the flexibility to apply private resources more judiciously where A.I.D. resources are not as readily available. This restriction on PVO activities reduces A.I.D. flexibility on with whom they will work.
- Significant inconsistency in the application of cost sharing requirements raises issues of equitable application of the regulations. Centrally-funded and mission grants often differ substantially in in-kind versus cash and the overall cost sharing requirements. Other grants provide maximum flexibility by allowing cost sharing "up to" a given level.
- Many PVOs use private fund raising as a means for building broad-based constituencies and disseminating development education information. In order to satisfy cost sharing requirements in the current environment, PVOs may be forced to choose expending resources to attract one or two large donors rather than the proportionately greater effort to cultivate and educate a wide cross-section of Americans. The opportunity costs in terms of public support for foreign assistance affects all parties -- A.I.D., PVOs and beneficiaries, equally.

## 2. Institutional Factors

For a number of largely institutional reasons, there are times when application of cost sharing rules may actually undercut the pursuit of substantive development objectives. A.I.D. grants to PVOs are developed, negotiated and implemented throughout the world in a wide variety of programmatic areas and local settings. The resulting difficulty of foreseeing specific requirements of grants has been recognized and, except for cost sharing, virtually all decisions on objectives, substance, funding levels and type of inputs have been decentralized to the responsible A.I.D. Mission or A.I.D./W office. Rigid worldwide rules mandating critical aspects of program inputs, could have very predictable effects in the case of standard, repetitive and predictable situations. Unfortunately this is rarely the type of situation that A.I.D. and PVOs works in. The result is that the intent of the cost sharing rules -- ensuring PVO commitment, A.I.D.'s frugality, and program sustainability -- (see section A above) are often not achieved while substantive development objectives and managing for results is negatively affected.

For example, finding another source of donor support for an activity to provide the 25% cost share, is by itself a rather nebulous indicator of a PVO's commitment to a particular activity. An A.I.D. Mission normally relies on other indicators of commitment such as past track record in country or in the programmatic area in question, the PVO's own corporate goals, the PVO staff's personal interest, capability, availability and reputation. Asking an otherwise highly committed PVO to find a 25% cost share has at times reduced rather than increased commitment to an activity because of the added burden of finding and negotiating with an additional party. Program sustainability is also a very weak argument for insisting on a cost share. Experience in addressing financial sustainability issues has taken A.I.D. and PVOs way past the simple notion that it can be measured by the extent to which other donors make their own limited funding commitments. Such a measure is in fact not generally accepted by A.I.D. as satisfying sustainability concerns in other areas (see A.I.D. Policy Paper on sustainability).

Finally, cost sharing rules are a poor way of ensuring that A.I.D. managers be frugal with limited budgets and distracts from the much more important goal of maximizing results with a given amount of resources. A highly effective PVO with no funds available to meet the 25% requirement could be the best positioned to achieve real results in a particular situation or country. An A.I.D. manager would actually be prevented from being "frugal" or efficient in using resources by existing rules which would limit her to working with a PVO which could meet the 25% requirement but was less effective in the given country or program area.

Despite their uncertain effect, implementation of these rules or of the waivers to bypass them have a clear cost to A.I.D. and PVOs in terms of staff time diverted to finding ways to meet the rules and ensuring their implementation in a manner which minimizes potential audit vulnerability.

### 3. External Factors

US PVOs have essentially three sources of non-US Government support with which to meet various cost sharing requirements: funds raised from individuals through appeals to either the general public or particular constituencies; funds raised through requests to US and non-US donor agencies including churches, private foundations, corporate foundations, and multilateral agencies; goods and services raised through the contribution of volunteer time and materials. In the current US economic and political climate, PVOs have reduced access to sources of non-U.S. Government resources. The reasons for this include:

- Trends indicate that multi-lateral, non-U.S. and private U.S. funding sources are funding local NGOs increasingly without increasing the overall level of funding for international programs. For PVOs, private worldwide development dollars are effectively dwindling which restricts A.I.D.'s choice of partners with which to work.
- Trends in national church denominations funding indicates that funding for PVO programs is being reduced in favor of directing funds to partner churches in the developing world.
- Trends in private corporate giving for development indicate that social responsibility and philanthropic funds are increasingly tied to product development or marketing. These funds are therefore unavailable to support PVO initiatives or provide a cost share to A.I.D. funding in the "poorest countries" or in the poorest sectors of countries where many PVO are operating programs.
- Increasing national attention on development needs in the U.S. and an increase in the number of domestic development organizations creates greater competition in the U.S. for limited private funds.
- PVOs that have public constituencies know that is demonstrably easier to raise private funds through emotionally-based campaigns than through campaigns based on development education. However, most have appropriately responded to well-reasoned suggestions from their partner organizations in the developing world by mounting public campaigns which more responsibly and

less emotionally depict problems in the developing world.

USAID is also operating in an environment of resource scarcity. Overall A.I.D. budgets and the number of personnel available to implement programs are being cut.

### III. Conclusions

From the foregoing analysis, the working group came to three general conclusions:

- the current cost sharing requirements are, to some extent, redundant with "privateness requirements" that have been mandated by Congress.
- while the cost sharing objective is sound, it has not been achieved.
- the objectives of cost sharing can be met through other mechanisms.

### IV. Recommendations

#### A. General Thrust

The basic thrust of the recommendations discussed below is to support "programming for results". Both A.I.D. and PVOs share a strong basic interest in demonstrating to their respective constituencies the ability to achieve impact. This is particularly true today when both A.I.D. and PVOs face increasing difficulty in maintaining funding levels from both USG and private sources. This common interest was felt to be so overriding that the sub-committee determined it should be a principal factor in shaping its recommendations.

More specifically, the committee felt that the "programming for results" could best be promoted by recommendations which help achieve the following:

1. Encourage and support collaboration between PVOs and A.I.D. field Missions in developing and implementing programs;
2. Promote strong, capable PVOs that can program resources effectively to achieve results;
3. Minimize bureaucratic requirements which add to both A.I.D. and PVO overhead costs and create potential for audit vulnerability.

The working group used these three principles to analyze and assess several cost

sharing options that are beneficial to A.I.D. and PVOs.<sup>5</sup> Two basic options were considered:

- (a) keep cost sharing as an objective
- (b) entirely eliminate cost sharing as an objective and the regulations which it requires.

The working group recommends that cost sharing as an objective be kept, but that implementing requirements be modified.

Several options on how to implement cost sharing requirements were considered:

- (a) maintain the current requirements, but encourage flexibility on accepting in-kind versus cash contributions.
- (b) institute a policy which provides for greater flexibility and opportunities for negotiations on cost sharing for individual projects, and eliminates a fixed cost sharing level;
- (c) establish new procedures for PVOs to meet cost sharing on an institutional basis rather than a project-by-project basis, likely with a fixed level requirement.

The working group recommends that A.I.D. institute a policy which eliminates rigid, centrally-determined cost sharing requirements in favor of decentralized, project-by-project decision-making allowing for greater flexibility and opportunity for negotiations at the level of the approving official. (see option B.2 in attachment #1). The working group identified three variations on the policy for consideration by A.I.D, any one of which could be sufficient:

- (a) Maintain cost-sharing as an objective, but make the application and level of cost sharing negotiable for every PVO-USAID agreement.
- (b) Extend A.I.D. PD16, policy on cost-sharing with non-governmental grantees, to PVOs.
- (c) Apply a variation of PD16, or a policy patterned after PD16, to cost sharing with PVOs. PD16 could be modified to emphasize that the

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<sup>5</sup> See Attachment #1 for a full list of options, and the pros and cons of each, that this working group considered.

appropriate contribution level will be negotiated between A.I.D. and the PVO, and that the value of the PVO's proposed activity and overall involvement in agency programs should be weighed together with its ability to contribute resources in particular instances.

### Cost Sharing Policy Options

A. Entirely eliminate cost sharing as an objective. Make cost sharing voluntary, allowing PVOs to propose the level of cost sharing they feel is appropriate, including none at all.

Pros:

- (a) Allows maximum flexibility as environment changes and for various projects.
- (b) Eliminates inconsistency of granting cost-sharing waivers.
- (c) Reduces A.I.D. administrative burden of tracking contributions.
- (d) Eliminates a policy that does not meet its objectives.

Cons:

- (a) If PVO contributions decrease, reduces A.I.D. leveraging of resources, and since A.I.D. doesn't have the funds to compensate, fewer projects may be implemented by PVOs.
- (b) If PVO contributions decrease, it may undermine perceptions of PVO independence.

B. Maintain cost sharing as an objective

1. Maintain the status quo. Keep the present policy (see State 331065, Oct. 23, 1987, and A.I.D. Handbook 3, 4B5e(5)(a)). but emphasize availability of in-kind contributions, and issue stronger guidance to missions to insure uniformity of implementation.

Pros:

- (a) Maintains strong policy preference for resource contribution by PVO partners, while clarifying guidance to insure greater uniformity in implementation of policy and waivers.

Cons:

- (a) Retaining stringent cost-sharing requirement does not address difficulty that many worthy organizations have in meeting this requirement in current economic environment.

2. Institute a policy which eliminates rigid, centrally-determined cost sharing requirements in favor of decentralized, project-by-project decision-making allowing for

greater flexibility and opportunity for negotiations at the level of the approving official.

Pros:

- More flexible than imposing an across-the-board requirement that must be waived if modified in any way.

Cons:

- Doesn't fully address inconsistencies and inequitable applications.
- May lead to a serious drop in the level of cost sharing.

The working group identified three variations on the policy for consideration by A.I.D, any one of which could be sufficient:

(a) Extend A.I.D. PD16, policy on cost-sharing with non-governmental grantees, to PVOs.

Pros:

- Provides uniform, agency-wide policy on cost sharing.
- Maintains cost sharing as agency policy, and therefore as a valuable means of leveraging A.I.D. resources and sustaining A.I.D.-financed projects where opportunities for A.I.D. funding of PVO activities will not be too seriously constrained.

Cons:

- To get Mission Directors and others to realize a change in the long and unique relationship between A.I.D. and PVOs requires a clear and separate policy statement, not merely including PVOs with other non-governmental grantees.

(b) Apply a variation of PD16, or a policy patterned after PD16, to cost sharing with PVOs. PD16 could be modified to emphasize that the appropriate contribution level will be negotiated between A.I.D. and the PVO, and that the value of the PVO's proposed activity and overall involvement in agency programs should be weighed together with its ability to contribute resources in particular instances.

Pros:

- Maintains cost sharing as agency policy, and therefore as a valuable means of leveraging A.I.D. resources and sustaining A.I.D.-financed projects where opportunities for A.I.D. funding of PVO activities will not be too seriously constrained.

(c) Maintain cost-sharing as an objective, but make the application and level of cost sharing negotiable for every PVO-USAID agreement.

Pros:

- This allows the maximum level of flexibility, with guidance, so that the most appropriate level of cost sharing is achieved for the project and organization involved.

3. Establish new procedures for PVOs to meet cost sharing on an institutional basis rather than a project-by-project basis.

A. Cost sharing should be viewed on a global level. Cost sharing would be evaluated once a year in conjunction with the registration or NICRA process.

Pros:

(a) Would allow cost sharing over 25% in one location be counted towards cost sharing in other locations. Would allow PVOs to participate in programs that do not attract private resources.

Cons:

- (a) Would require centralized information system.  
(b) Some PVOs may not be able to comply with such requirements.

B. Develop one cost sharing rate annually for each PVO to be applied to all A.I.D. assistance for the PVO for that year. Such a rate could reflect the average global contributions by each organization in prior years and the PVO's current fundraising strength.

Pros:

- (a) Eliminates variability among missions in interpretation of cost sharing policy.  
(b) Acknowledges an organizations's global contribution to A.I.D.-financed programs, rather than imposing a twenty-five percent minimum in each case without giving credit for PVO's contributions elsewhere.  
(c) Allows PVOs to undertake necessary work and respond to A.I.D. requests without being restricted by their worldwide private funds availability.

Cons:

- (a) Requiring different contribution rates for different PVOs might be perceived as creating an unfair advantage for some PVOs in competition

- for A.I.D. funding.
- (b) Setting a single rate for a PVO doesn't resolve variations in a PVO's ability to contribute resources for different projects, unless a PVO's total contribution (and not just its contribution rate) is calculated globally. This would be an unprecedented approach, and is unlikely to be adopted.
- (c) Eliminates the mission's ability to relate PVO contributions to mission programming and funding needs.
- (d) Implementation would require a centralized information system, to which missions have access, that continuously updates PVO contributions.

C. Taking into consideration a PVO's worldwide track record considering waivers and the appropriateness of potential partners.

Pros:

- (a) This would assist a PVO to weather a difficult financial year if they have previously shown evidence of complying with the spirit of cost sharing.

Cons:

- (a) Would require a constantly updated, centralized, information system which missions could tap into.
- (b) There are no two projects exactly alike and each must be evaluated separately for its potential.

Attachment #2  
Working Group #2  
PD-16

**A.I.D./PVO TASK FORCE**  
**WORKING GROUP THREE REPORT**  
**SEPTEMBER 1993**

## **GLOSSARY**

**CDO:** Cooperative Development Organization. A Cooperative Development Organization is a cooperative or association of cooperatives linked by a common purpose or business (such as agriculture, credit unions, housing, rural electricity, telephone) that are working to develop cooperatives as part of a worldwide network. (CDOs are included in references to PVOs throughout this document.)

### **Contractors:**

For-profit

Not-for-profit

**INGO:** Indigenous Nongovernmental Organization

**PVO:** U.S. Private Voluntary Organization

**Regional Bureau:** Washington-based geographic units (e.g., Europe and the NIS, the Near East and Asia, Latin America and Africa) that fund programs on a regional basis and work in multiple countries within a region.

**Regional Field:** Field-based regional offices that exist on a small scale (e.g., Bangkok for Thailand and Cambodia).

**Tenders:** Includes Invitation for Applications (IFAs), Request for Applications (RFAs), and Requests for Proposals (RFPs).

## INTRODUCTION

Private Voluntary Organizations (PVOs) and Cooperative Development Organizations (CDOs) bring different strengths to development. Both PVOs and CDOs are founded on a belief in the development of private sector initiatives to promote self-help in achieving sustainable economic and social improvements. PVOs seek to develop partners in countries if none already exist. CDOs, as part of a worldwide cooperative network found in nearly every country, provide a support system and a tie to international markets, and can internationalize the perspectives of local groups and promote cross-fertilization of ideas. Broad-based participation in decision-making (inherent in the operations of PVOs and CDOs) provides practical experience with the democratic process.

A partnership is the ideal relationship between PVOs/CDOs and indigenous non-governmental organizations (INGOs). A partnership implies mutual respect even if the resources available to each partner are unequal. PVOs, cooperatives and credit unions, as a matter of practice and philosophy, work with local counterparts thereby developing local capabilities for development. The goal of PVOs/CDOs is to leave behind viable, sustainable organizations once a project is completed. A.I.D. policies should reflect the importance of sustainable development and the role PVOs/CDOs play in achieving it. Sustainable development is inherent in the work of PVOs/CDOs; thus these organizations should receive funding priority over for-profit firms that do not work with nor develop counterpart groups.

PVOs, CDOs and INGOs bring a unique dimension -- an ability to involve stakeholders -- to country strategy decisions. This is a critical component in decision-making, especially in those countries where A.I.D. is considering withdrawal. Involvement of PVOs, CDOs and INGOs demonstrates appreciation of the role of civic organizations and the need to foster these in emerging democracies.

The Administration's emphasis on fostering the growth of civil society is commendable, because it recognizes that nongovernmental organizations are essential to the process of democratization, and to development at large. This strategic emphasis on the nongovernmental sector requires that more resources be made available to PVOs working in partnership with INGOs. In particular, PVO access to these resources via successful competition for A.I.D. contracts needs to be improved.

## FRAMEWORK

1. Partnership is the ideal PVO/INGO relationship.

One goal of foreign assistance activities is to develop an indigenous capability to carry on development activities in a sustainable manner. A partnership implies a mutual respect with an acknowledgement that the level of effort or degree of responsibility of each partner may change over time as the local INGO develops experience. PVOs, cooperatives and credit unions as a matter of practice and philosophy work with local counterparts thereby developing local capabilities for self-development.

2. PVOs and CDOs bring different strengths to development.

Both PVOs and CDOs are founded on a belief in the development of private sector initiatives to promote self-help. PVOs seek to develop partners in countries if none already exist. They are a powerful, yet underutilized, bottom-up mechanism for social and economic change. PVOs strive to use resources effectively without sacrificing the grassroots character that is central to their philosophy. Cooperatives and credit unions represent an international phenomenon with worldwide, regional and national structures that are found in nearly every country as a means of social and economic development. Thus, there are cooperatives and credit unions already in existence in most A.I.D. countries. Through all of these structures, U.S. cooperatives provide a support system, and a tie to international markets, and can internationalize the perspectives of local groups and promote cross-fertilization of ideas. Broad-based participation in decision-making provides practical experience with the democratic process.

3. PVOs and INGOs should always participate in the development of A.I.D. country strategies.

PVOs/INGOs bring a unique dimension -- an ability to involve stakeholders -- to country strategy decisions. This is a critical component in decision-making, especially in those countries where A.I.D. is considering withdrawal. The disastrous effects of not considering local perspectives and realities in a country have been demonstrated in too many previous development projects. Involvement of PVOs and INGOs demonstrates appreciation of the role of civic organizations in development and the need to foster these in emerging democracies.

4. Principles of sustainable development should be built into project design.

The goal of development activity is to build local capacity to handle local development. It is not enough to spend resources to alleviate a problem or assist

in recovery from disasters, rather local groups need to be involved so they can eventually take over these functions.

5. PVOs should be given funding priority over for-profit firms.

PVOs by philosophy and practice work with local non-governmental organizations. Working with local counterparts, a basic component of PVO strategy, leads to the development of local capacity and sustainability. And, by Working with PVOs and cooperatives, A.I.D. gets the job done more cost effectively at the same time local capability is being developed. Viable, sustainable local organizations remain once the contract/project is completed.

**ISSUE 1:** Current A.I.D. funding arrangements (mission, regional field, regional bureau and central) are cumbersome, time-consuming and expensive.

**RECOMMENDATION:** A.I.D. funding arrangements should be simplified and improved with provisions for increased PVO/INGO access.

**ANAYLSIS:**

Given the climate of uncertainty created by A.I.D.'s new organizational structure, A.I.D. should maintain, for the time being, all current funding arrangements: mission, regional field, regional bureau and central. At present, it is unclear where PVO funding will be handled within the organization. Current funding arrangements allow PVOs/INGOs flexibility in applying for funding during this period of transition.

A.I.D. regulation and practice is cumbersome, time-consuming and expensive. The transition process should include a streamlining of the funding process to improve and simplify funding arrangements. One way to correct the inefficient and inefficacious funding process involves greater involvement of the PVO/INGO community. For example, A.I.D. tenders, in many cases, have poorly articulated goals and objectives that fail to give direction to PVOs/INGOs in terms of conceptualizing appropriate project design. The PVO/INGO community, in partnership with A.I.D., can assist in conceptualizing and articulating country goals and program objectives which will result in greater clarity of appropriate funding arrangements. For the PVO/INGO community, a greater understanding of A.I.D.'s country goals and program objectives as articulated in the RFA allows for more informed decision-making in the proposal process.

In addition to recommending greater PVO/INGO involvement in country goal design and programming, there should be flexibility in A.I.D. funding to consider funding for programs not articulated in A.I.D.'s country development strategy that are nonetheless consistent with the development needs of the country.

Again, however, it is important to emphasize that all current funding mechanisms (including matching grants, institutional grants, RFAs, buy-ins, etc.) remain in place until A.I.D.'s organizational transition is complete.

**ISSUE 2:** A.I.D. currently underutilizes PVOs and INGOs when designing projects.

**RECOMMENDATIONS:**

- When sufficient local organizational capacity exists, A.I.D. should fund INGOs.
- A.I.D. should promote the development of INGOs by encouraging PVO/INGO partnerships wherever possible.
- A.I.D. should require and support its project design and technical officers to give priority to the use of PVOs and INGOs.
- A.I.D. should develop a list of criteria that can help project officers make accurate determinations of the benefits and costs of using INGOs and PVOs.

**ANAYLSIS:**

Although the Foreign Assistance Act and the Development Fund for Africa mandate the use of PVOs, there has been resistance on the part of many A.I.D. officers to aggressively use the PVO and INGO communities. Projects that could be implemented by a PVO or an INGO are often contracted out to management consulting firms.

INGOs and PVOs can provide viable alternatives to contracting often offering more cost effective, participatory, sustainable alternatives. To encourage these options, A.I.D. must educate its technical and project design officers regarding the value of using a PVO or an INGO.

A list of criteria should be developed to help A.I.D. officers make decisions regarding the use of INGOs and PVOs. Questions such as the following need to be addressed: (1) When is it most beneficial for A.I.D. to work directly with INGOs and what are the trade-offs involved in this decision? (2) What are the criteria A.I.D. officers can use to select the most appropriate INGO? (3) What are the benefits of using an INGO or PVO compared to a contractor -- specifically examining the trade-offs in terms of: cost, community participation, replicability and sustainability.

Although INGOs should be the preferred vehicle, local organizational capacity may not exist. Under these conditions, PVOs should be used to work in partnership with INGOs. Whenever possible, South-South dialogue and partnership among indigenous INGOs should also be encouraged. At the forefront of these decisions should be the theme of working in partnership.

Innovative funding arrangements need to be developed that encourage collaboration on all levels and allow A.I.D. to tap into the best of all sources, including the use of cooperatives, INGOs, PVOs and contractors. By getting these different organizational entities to work in partnership, A.I.D. will be able to meet the development priorities of the 1990s and beyond.

**ISSUE 3:** The Potential roles of PVOs/INGOs have not been adequately considered in light of A.I.D. "rightsizing", program development in new countries, regionalizing programming and/or withdrawal from particular countries.

**RECOMMENDATION:** A.I.D. should expand and increase funding for PVO/INGO programs and PVO/INGO consortia to enable these organizations to participate in the development and implementation of A.I.D. country strategies.

**ANAYLSIS:**

As A.I.D. withdraws from particular countries, regionalizes programs or enters new countries it is likely that there will be new or continuing strategic concerns of the U.S. Government (USG) in these countries. Many of these concerns can be addressed satisfactorily without on-the-ground A.I.D. personnel. One of the ways this can be achieved is by development of a cooperative arrangement with American PVOs, INGOs or consortia of any of the above.

These groups have proven abilities to design and implement programs in many of the countries where A.I.D. has worked or wishes to work. In many

countries PVOs/INGOs have personnel with language skills, long-time country familiarity, counterpart organizations and the ability to bring together consortia of American PVOs and INGOs or other groups to develop and implement programs.

PVOs/INGOs should be included in A.I.D. planning from the outset: in the conceptualization of the strategy and project development and then should be considered for the implementation of the plans. A.I.D. should look at these possibilities as it begins its long-term budgeting. It should budget funds to support both the in-country programs and the expenses of PVOs/INGOs in implementing these programs, which should result in a substantial cost savings for A.I.D.

**ISSUE 4:** A.I.D. tenders are not currently designed to encourage PVO involvement and partnership with INGOs, nor with for profit firms.

**RECOMMENDATIONS:**

1. A.I.D. should design tenders in such a manner as to encourage PVO involvement in project design, implementation and evaluation.
  - A.I.D. should clarify the role of the new Global Bureau in terms of PVO involvement in projects.
  - Criteria for submission of tenders should be designed to ensure a role for, and capacity building of, PVOs of all sizes and INGOs.
  - PVOs should be given priority over for-profit firms.
  - Announcements of tenders and their timelines should be designed to permit PVO/INGO participation and true competition.
2. "Mega" Tenders should be designed to ensure participation by any PVO/INGO.
  - Sufficient time must be built into the bidding process for this broad participation to occur.
  - Funding mechanisms other than up-front financing by PVOs are needed.

- Program Development and Support funds should be available for program development by PVOs/INGOs, even those not operating in the country where the program in question will be implemented.

(Continuation of Issue 4):

3. During project design, A.I.D. should specify in which countries projects will be implemented, in order to achieve the goals indicated by the tender.

#### **ANALYSIS:**

A.I.D.'s current policies and procedures regarding tenders are flawed. Problem areas are as follows:

- The manner in which projects and subsequently tenders are designed and announced inhibits the involvement and, ultimately, the competitiveness of PVOs and their counterparts among INGOs. Tenders are usually designed for for-profit contractors, and rarely include language designating PVO/INGO involvement; A.I.D. technical staff charged with drafting tenders do not typically consider PVO expertise and capabilities, nor PVO financial constraints regarding cost reimbursable projects.
- Although they are obvious "stakeholders" in the tendering process -- and will be responsible for implementing projects when their proposals are successful -- U.S. PVOs and their counterparts among INGOs are rarely engaged in project conceptualization and design. As a result, project planning quality is diminished, appropriate benchmarks for evaluation may be overlooked, and the potential for PVO/INGO collaboration decreases.
- Related to the latter point, the manner in which tenders are announced, and deadlines set, hinders PVO/PVO collaboration, as well as PVO/INGO collaboration. Current tendering deadlines tend to work against the development of PVO consortia with ample capacity, experience, country presence, and INGO counterparts to compete successfully for projects, and to ensure project success. The tendering process should be designed to take full advantage of the financial and programmatic efficiency of such consortia, as well as their INGO capacity-building potential.
- Given the imminent closing of A.I.D. missions, PVOs are concerned that tenders be explicit in identifying the countries in which project activities will occur. This is especially important for small PVOs that cannot afford to compete for projects that may ultimately be inappropriate for them.

## **PVO POLICY REVIEW**

### **Work Group 4: Capacity Building**

#### **Summary Report**

### **BACKGROUND**

During his confirmation hearings A.I.D. Administrator Brian Atwood defined a new vision for U.S. development assistance that recognizes that direct participation of people in solving their own problems is critical to overcoming poverty, hunger, disease and illiteracy and that solutions for these problems are best identified by including people themselves directly in the development process. One mechanism for fostering increased participation in development is to work with U.S. Private Voluntary Organizations (PVOs) and developing country non-governmental organizations (NGOs). Recognizing the wealth of experience and expertise and the participatory approach they bring to the planning and implementation of programs to promote sustainable development at the grassroots level, the Administrator has placed high priority on A.I.D. working more effectively with PVOs and NGOs.

To this end, the Administrator has requested new Agency policy guidance on a number of issues relating to A.I.D.'s relationship with PVOs and NGOs. In late July, six working groups were convened to examine some of these issues. Membership in the groups was to draw on both A.I.D. staff and representatives from the PVO community. Work Group 4 was tasked with examining the role of A.I.D. in the capacity building of PVOs and NGOs and the implications this has toward working with larger, well-established PVOs (See Attachment 1: Work Group 4 Participant List).

### **PROCESS**

At the meeting of Work Group 4, the issue before the group was clarified as focusing primarily on A.I.D.'s support for capacity building of PVOs and NGOs and secondarily on the implications this would have on its relationship with larger, well-established PVOs. Some of the questions the group identified for consideration were:

1. What is a working definition of capacity building?
2. Do the needs for capacity building differ for PVOs and NGOs? for larger, well-established PVOs and smaller, newer PVOs?
3. Does the current focus on making A.I.D. a more results oriented Agency imply that A.I.D. should focus its limited resources primarily on larger, well-established PVOs especially if administrative demands and reporting requirements are going to be reduced and the grant procurement process streamlined?

4. If A.I.D. is to continue to have a role in the capacity building of PVOs and NGOs, should the scope of such support be driven by PVO/NGO need or A.I.D. program/policy priorities?

The group proceeded to develop a shared, working definition of "capacity building". Common themes emerging from the discussion were that capacity building is not an end in itself, but should be viewed as an important step leading toward grassroots sustainable development. The ultimate purpose of any capacity building intervention is to improve an organization's effectiveness at achieving its objectives and goals. Capacity building must be viewed over the long-term and results measured accordingly. It should include support for strategic planning and realignment.

It was also acknowledged that funds for long-term institutional development are very difficult to come by from both public and private donors. A.I.D. would, therefore, be filling an important void by supporting such critical needs, especially as PVOs enter a period of transition in which they re-examine their roles in the relief-development continuum and move from an exclusive focus on providing services to a more inclusive focus on facilitating local NGO capacity.

There was considerable discussion concerning the proliferation of indigenous NGOs around the globe and the relationship between U.S. PVOs and their Southern counterparts. In this context, capacity building is seen as part of an evolutionary process in which A.I.D. supports the institutional strengthening of PVOs and PVOs, in turn, assist in the transfer of management and technical skills to indigenous groups. This would inevitably result in the strengthening of institutions which comprise the independent sector as part of the civil society and would lead ultimately to a more sustainable development impact at the grassroots level. Again, it was emphasized that this requires a long-term, strategically focused approach the results of which cannot be measured in terms of numbers of individuals trained or wells dug.

This lively discussion (See Attachment 2: Notes from 7/30/93 Meeting) resulted in the adoption of the following definition as adopted by the group:

**Capacity building is a long-term evolutionary, dynamic and participatory process which enables and encourages an organization to develop and meet its institutional objectives in its work on relief, rehabilitation or sustainable development.**

The group emphasized that capacity building can occur in several areas, such as: basic operations and management systems, technical or sectoral expertise, or conceptual and strategic orientation. It was also noted that the need for capacity building exists at all points on the relief, rehabilitation and development continuum and is relevant for organizations both large and small and new and well-established.

With this definition as a backdrop, the group met again to discuss programming models and options which would support the working definition and increase effectiveness of A.I.D./PVO joint efforts toward achieving sustainable development (See Attachment 3: Notes from 8/6/93 Meeting). During this discussion, a number of complementary and, in some cases, related options for A.I.D. support for capacity building emerged.

Some options highlighted the need for A.I.D. to provide funds to U.S. PVOs to strengthen their capacity in a variety of areas from strategic planning to technical/sectoral expertise to the development of sound management systems. This was equally important for small, newly emerging PVOs and well-established PVOs.

Others pointed out the important role U.S. PVOs can play as mentors and facilitators of their NGO partners and the need to develop local capacity. They also saw the need to share resources at the local level between organizations and among donors. However, it was emphasized that all of these interventions take time and donors, especially A.I.D., would need to adjust their timeframe expectations for measuring success.

There was some discussion of alternative funding mechanisms which might be used such as assigning small grantmaking authority to a U.S. PVO or establishing a fund at the local level that NGOs could access, similar to the A.I.D.-funded Small Project Assistance Program for Peace Corps volunteers or the Ambassador's Self-Help Fund. Direct funding of NGOs by the Missions was also discussed as relevant and appropriate in some countries.

In order to more fully define the range of programming options identified by the group, it was suggested that the next meeting employ the Focus Group methodology<sup>1</sup> facilitated by a consultant skilled in this area. The purpose was to solicit input for the design of three potential programming options for A.I.D. support to PVO and NGO capacity building. The group proposed names of other A.I.D. and PVO staff to be invited to join the group for this process.

On Friday, August 20, 1993, members of Working Group 4 and five additional PVO and A.I.D. representatives met for three hours to participate in a Focus Group (See Attachment 4: Focus Group

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<sup>1</sup> The Focus Group methodology has been successfully used to identify customer preference and solicit ideas for product development for a wide variety of end uses from toothpaste to management training.

Participant List). The Focus Group consultant explained that the objective of the Focus Group was to explore creatively options to be presented to policy-makers on the subject of "Capacity Building for PVOs and NGOs". He further explained that staff had taken the inputs from the previous working group meetings and reformulated much of that thinking for discussion at this Focus Group (See Attachment 5: Concept Testing Meeting handout). The participants were divided into three mixed groups and each group was asked to discuss and critique one of three capacity building program options as presented to them on Concept Boards (See Attachment 6: Concept Boards). The format for each Concept Board included the following elements:

- Title:** Title or label for that approach to capacity building.
- Promise:** The promise that approach will directly address.
- Challenges:** The challenges that approach will directly address.
- Features:** Major features to that approach to capacity building.
- Reasons to Believe:** Evidence that the approach will work as promised.

The first Concept Board presented the programming option pertaining to A.I.D.'s support for building the capacity of U.S. PVOs. The group agreed that the emphasis here should be on strengthening A.I.D.'s initiatives in this area which would, in turn, result in greater effectiveness on the part of the PVOs as providers of development assistance. Such support from A.I.D. especially increases PVO capacity to work in areas where they currently lack experience or expertise or where it is difficult to raise private funds. It was reinforced that such support should address a variety of needs such as improvement of management systems, training at all levels, and research and development for innovative program design and delivery.

Directly enhancing PVO management capacity was also highlighted as important at a time when A.I.D.'s financial and human resources are diminishing and it is making plans to reduce its direct presence in a number of countries. As A.I.D. withdraws, PVOs may be increasingly called upon to manage the development portfolio in certain countries which would require more sophisticated management and administrative systems.

The second Concept Board addressed the issue of A.I.D.'s support to U.S. PVOs as they re-tool to move from direct providers of development assistance to facilitators of NGO capacity with the end goal of achieving more sustainable development impact at the grassroots level. This kind of a dramatic organizational reorientation often requires a change in mission, values and approach, as well as staff. This approach would require a PVO to have staff skilled at technology transfer who could function as trainers of trainers. A.I.D.'s resources could be used to develop U.S. PVOs as mentors of NGOs. This would

require A.I.D. to redefine the purpose of its assistance to PVOs and to identify more appropriate methods for determining results and establishing time frames.

The group also emphasized the need to involve local partners in this process beginning at the design stage on through to implementation and evaluation. Some raised the question as to whether this approach would eventually work the U.S. PVO out of a job. However, it was pointed out that there are endless opportunities around the globe to assist local organizations in building local capacity and strengthening civil society.

The third Concept Board focused on A.I.D.'s direct support for building local NGO capacity. The group acknowledged the fact that providing resources directly to local NGOs strengthens the independent sector and helps build civil society. It also agreed that strengthening NGO management and technical capacities increased the likelihood of sustainable impact. However, despite the fact that there are successful examples of A.I.D. support directly to NGOs, the administration and management of such support is more problematic, especially given plans to reduce A.I.D. presence in many countries.

Based on the Focus Group critiques of each of the three Concept Boards, they were revised to incorporate salient points from the group discussion. Each of the revised Concept Boards is presented below and serves as a major part of the product resulting from Work Group 4.

**TITLE:** A.I.D.'S SUPPORT FOR BUILDING U.S. PVO CAPACITY

**PROMISE:** STRENGTHEN A.I.D.'S INITIATIVES THAT EFFECTIVELY RESULT IN GREATER U.S. PVO CAPACITY TO PROVIDE DEVELOPMENT ASSISTANCE

- CHALLENGES:**
- ◆ DEVELOPS AND ENHANCES PVOs' CAPACITY TO PERFORM IN EXISTING AREAS AS WELL AS AREAS WHERE THEY LACK EXPERIENCE, EXPERTISE OR PRIVATE SUPPORT
  - ◆ INCREASES A.I.D.'S CONFIDENCE IN PVO MANAGEMENT CAPABILITY
  - ◆ HELPS PVOs DEAL MORE EFFECTIVELY WITH A.I.D.'S FUNDING AND PROGRAM REQUIREMENTS
  - ◆ MORE EFFECTIVELY UTILIZES A.I.D.'S DIMINISHING FINANCIAL AND HUMAN RESOURCES

- FEATURES:**
- ◆ FINANCIAL RESOURCES AVAILABLE FOR PVO INSTITUTION BUILDING, INCLUDING IMPROVED MANAGEMENT SYSTEMS, TRAINING AT ALL LEVELS AND R&D FOR INNOVATIVE PROGRAM DESIGN AND DELIVERY
  - ◆ GREATER AUTONOMY FOR PVO PROGRAM DESIGN, IMPLEMENTATION AND EVALUATION
  - ◆ PVO ABILITY TO MANAGE DEVELOPMENT ASSISTANCE IN COUNTRIES WHERE THERE IS NO A.I.D. PRESENCE
  - ◆ PVOs BECOME VEHICLES FOR RAPID RESPONSE

**REASONS TO BELIEVE:** RESEARCH HAS SHOWN THAT U.S. PVOs ARE EFFECTIVE AT ENGAGING PEOPLE IN THEIR OWN DEVELOPMENT. SUPPORTING PVO INSTITUTION BUILDING IS AN EFFECTIVE USE OF A.I.D. RESOURCES.

(REVISED BY FOCUS GROUP PARTICIPANTS, AUGUST 20, 1993)

**TITLE:** A.I.D.'S STRENGTHENING OF U.S. PVOs AS FACILITATORS OF NGO CAPACITY

**PROMISE:** PROVIDE RESOURCES AND A PROGRAM APPROACH TO STRENGTHEN U.S. PVO AND LOCAL NGO CAPACITY FOR THE PURPOSE OF BUILDING CIVIL SOCIETIES

**CHALLENGES:**

- ◆ ACCELERATES U.S. PVO'S MOVE FROM DIRECT PROVIDER OF SERVICES TOWARD DEVELOPING LOCAL CAPACITY
- ◆ ENHANCES PROSPECTS FOR SUSTAINABILITY AT LOCAL LEVEL
- ◆ LEADS TO LONGER TERM IMPACT THROUGH WISER USE OF LIMITED RESOURCES

**FEATURES:**

- ◆ U.S. PVOs STAFFED WITH PEOPLE SKILLED AT TECHNOLOGY TRANSFER AND TRAINING OF TRAINERS
- ◆ CHANGE IN MISSION, VALUES AND APPROACHES OF U.S. PVOs TO ONE THAT MOVES THEM FROM AN EXCLUSIVE FOCUS ON SERVICE DELIVERY TO INCLUDE BUILDING CAPACITY
- ◆ A.I.D. RESOURCES USED TO DEVELOP U.S. PVOs AS MENTORS FOR LOCAL NGOs
- ◆ EMPHASIS ON STRENGTHENING NGOs AS PARTICIPANTS IN LONG TERM DEVELOPMENT
- ◆ LOCAL NGOs BECOME PARTNERS IN PROGRAM DESIGN AND IMPLEMENTATION
- ◆ INCREASED COLLABORATION AND ALLIANCES AMONG DONORS, U.S. PVOs AND LOCAL NGOs
- ◆ CHANGE IN A.I.D.'S PROGRAMMING APPROACH TO COMMIT TO LONGER TERM INTERVENTIONS
- ◆ CHANGE IN A.I.D.'S APPROACH TO INVOLVE U.S. PVOs EARLIER IN PROGRAM DESIGN AND DECISION-MAKING
- ◆ CHANGE IN A.I.D.'S DEFINITION OF THE "PRODUCT" FROM SERVICE DELIVERY TO CAPACITY BUILDING

**REASONS TO BELIEVE:**

RESEARCH AND EXPERIENCE HAVE SHOWN THAT U.S. PVOs CAN SUCCESSFULLY ENHANCE THE CAPACITY OF LOCAL NGOs TO ACHIEVE SUSTAINABLE DEVELOPMENT IN AN EFFECTIVE WAY.

(AS REVISED BY FOCUS GROUP PARTICIPANTS, AUGUST 20, 1993)

**TITLE:** A.I.D.'S DIRECT SUPPORT FOR BUILDING LOCAL NGO CAPACITY

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**PROMISE:** PROVIDING RESOURCES TO LOCAL NGOs STRENGTHENS THE INDEPENDENT SECTOR AND HELPS BUILD "CIVIL SOCIETY"

**CHALLENGES:**

- ◆ INCREASES CAPACITY OF NGOs TO ACHIEVE EFFECTIVE LOCAL DEVELOPMENT AND ENHANCES LOCAL PARTICIPATION IN PROCESSES THAT AFFECT PEOPLE'S LIVES
- ◆ INCREASES LOCAL NGOs' MANAGEMENT AND ACCOUNTABILITY
- ◆ PROMOTES SUSTAINABILITY AT LOCAL LEVEL
- ◆ CONTRIBUTES TO GREATER RESPONSIVENESS BETWEEN A.I.D. AND PRIORITIES AND STRATEGIES OF LOCAL NGOs
- ◆ ENABLES NGOs TO BECOME VEHICLES THAT ARE MORE RESPONSIVE TO PROCESSES OF SURVIVAL AND SELF-IMPROVEMENT OF PEOPLE, INCLUDING RAPID RESPONSE IN DISASTERS
- ◆ NGOs BECOME VEHICLES FOR COMMUNITIES TO SOLVE THEIR OWN PROBLEMS

**FEATURES:**

- ◆ INCREASED FINANCIAL RESOURCES AVAILABLE FOR NGO INSTITUTION BUILDING INCLUDING DEVELOPMENT OF MANAGEMENT SYSTEMS, TECHNICAL OR SECTORAL EXPERTISE, AND CONCEPTUAL OR STRATEGIC ORIENTATION
- ◆ ALLOW GREATER AUTONOMY FOR NGO PROGRAM DESIGN
- ◆ MORE STREAMLINED AND SIMPLIFIED TRANSFER OF RESOURCES AND TECHNOLOGY

**REASONS TO BELIEVE:**

EXPERIENCE HAS DEMONSTRATED THAT DIRECT FUNDING OF LOCAL NGOs RESULTS IN LOCALLY DESIGNED DEVELOPMENT INITIATIVES. LOCAL NGOs ARE BETTER POSITIONED TO FACILITATE AND SUPPORT GRASSROOTS DEVELOPMENT EFFORTS THAT ENABLE PEOPLE TO MOBILIZE RESOURCES FOR THE DEVELOPMENT OF THEIR COMMUNITIES AND COUNTRY.

(AS REVISED BY FOCUS GROUP PARTICIPANTS, AUGUST 20, 1993)

## IMPLICATIONS AND RECOMMENDATIONS

One major conclusion which can be drawn from the discussion of Working Group 4 is that A.I.D. has a much needed and appreciated role to play in the support of PVO and NGO capacity building at all stages of the relief-rehabilitation-development continuum. It is clear from the working group discussions and the Focus Group critiques that both A.I.D. staff and PVO representatives value the direct assistance for institutional strengthening A.I.D. has provided in the past and is considering providing in the future.

The group discussions also verified that there are a number of programming options which equally warrant consideration depending on the context and needs of the recipient organizations. The group endorsed all three models of capacity building and determined that the appropriate option would depend on the specific circumstances and requirements of the situation.

First, U.S. PVOs, both large and well-established and small and emerging, can benefit from funds specifically targeted to improving institutional capacity. Such support from A.I.D. can be used by PVOs to design innovative and more effective programs and to improve or refine management and administrative systems. This support can also augment PVO capacity to respond to development challenges in areas where they currently lack experience or expertise. For example, an A.I.D. Partnership Grant provided to the Freedom from Hunger Foundation (FFH) enabled FFH to design and implement a new programming approach to its work in health, nutrition and food security, resulting in a dramatically improved program with more sustainable impact. The A.I.D. grant differed substantially from previous grants in its intent to provide FFH with the financial flexibility it needed to re-conceptualize its approach and to re-train staff.

Second, A.I.D. can assist U.S. PVOs in adapting their roles from one of direct service provider only to one that includes facilitation of NGO strengthening and growth. Making this transition requires serious re-examination of an organization's mission and long-term strategies, and it often brings with it different staffing requirements or a need for re-training. Funds for such organizational changes are hard to come by because results may not be immediately observable in the short-term. For example, ACCION International designed and implemented a unique microenterprise lending training methodology by directly involving local, affiliate organizations in its design and implementation. A.I.D.'s support enabled ACCION to consolidate the lessons learned from nearly 20 years of experience, resulting in a highly effective, participatory approach to microenterprise lending which is now being implemented by its NGO affiliates.

Third, A.I.D. can contribute to the growth of the independent

sector in developing countries and newly emerging democracies through direct support for NGO capacity building at the country level. This support needs to be specifically tailored to the cultural and political contexts of each country and is an area which may require creative and innovative programming approaches to be most appropriate and effective. For example, the A.I.D. Mission in Swaziland has been working with three local NGOs to design and implement drought rehabilitation/environmental conservation projects. Meetings with these NGOs and several international PVOs have formed the nucleus of a new network of NGOs interested in environmental issues.

The group repeated on numerous occasions that capacity building is not something that is done for its own sake, but, rather, for the positive impact it has on the lives of the poor. Viewed in this light, building the capacity of an organization is seen as an intermediate objective. Improving the organization's performance in meeting the needs of its beneficiaries is the ultimate objective.

It was the overall consensus of the group that A.I.D.'s support for PVO and NGO capacity building enhances the effectiveness of U.S. foreign assistance by strengthening the independent sector and civil society, thereby leading to more sustained development impact at the grassroots level. Therefore, starting from the assumption that A.I.D. has a critical role to play in the capacity building of U.S. PVOs and local NGOs, the following recommendations are made:

1. That A.I.D. provide direct support to U.S. PVOs for institutional strengthening across a broad spectrum from strategic planning to staff development;
2. That A.I.D. sponsor programs designed to enhance PVO management capacity like the PVO/CEO Organizational Excellence Program and technical capacity in areas such as microenterprise and environment;
3. That A.I.D. provide support for programs designed to enable U.S. PVOs to serve as facilitators of NGO capacity building;
4. That A.I.D. encourage the development of innovative and appropriate mechanisms at the local level to support NGO capacity building; and
5. That A.I.D. recognize that programs designed to build the capacity of PVOs and NGOs will require flexibility and long-term funding.

## ATTACHMENTS

1. Work Group 4 Participant List
2. Notes from 7/30/93 Meeting
3. Notes from 8/6/93 Meeting
4. Focus Group Participant List
5. Concept Testing Meeting Handout
6. Concept Boards

PVO Policy Task Force Working Group #4: Capacity Building

Participants

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### CAPACITY BUILDING IS....

- o Empowering an organization to develop and improve its institutional ability to carry out self-sustaining activities in new and/or better ways.
- o A dynamic process.
- o A two-way process.
- o Something that occurs on three levels:
  - Basic operations
  - Technical/sectoral specific
  - Conceptual (vision, goal, strategic plan, etc.)
- o Viewed over the long-term, at least 5 years.
- o Something donors don't usually support (capacity building over long-term).
- o Importance of strategic planning and supporting NGOs look at long-term growth.
- o Is development project driven?
- o Accountability for achieving strategic objectives.
- o Capacity building is a part of "institutional development" = strengthening the sector
- o A means to an end to meet larger goals and objectives.
- o Not just short-term training.
- o Enabling an organization to improve itself - developing the NGO sector as a whole.
- o Mutually reinforcing partnerships.

PVO Policy Task Force Working Group #4: Capacity Building  
1st Meeting, July 30, 1993, 3-4:30 p.m.

Small group discussion:

As local NGOs evolve, U.S. PVOs' role changes.

Capacity building is art, not science. It's not something the Northern PVOs do to indigenous, Southern NGOs. It's a 2-way process, an exchange in which each learns from the other.

Capacity building becomes an evolutionary process in which, e.g. PVC helps U.S. PVOs to develop their capacities, and PVOs, in turn, help indigenous groups.

Capacity building is not something that occurs in the short-term and its results are not easily quantified. It is not an end product. This makes it difficult to secure donor funding. It's difficult to 'package'.

Large group report out: (this supplements the above)

-distinction between capacity building for an organization vs. for an activity.

-importance of strategic planning and supporting NGOs that take a long-term approach, e.g. the Association of Women's Clubs in Zimbabwe is seeking donors who will 'buy into' their vision, their strategic plan (not specific projects).

Institutional development? capacity building?  
Is it a question of one or the other? or both?

Institution building is a means to an end. Look at the impact. How have services rendered to the poor improved because of it?

Typically, A.I.D. has focussed on reaching the poor without paying attention to local capacities.

-empowering an organization to teach itself.

When talking about capacity building, can talk about the broader NGO sector within the country -- look at individual organization and look at overall sector.

## CAPACITY BUILDING

### A Working Definition

Capacity building is a long-term, evolutionary, dynamic and participatory process in which an organization is empowered to develop and/or meet its institutional objectives and to work toward self-sustainability. Capacity building can occur in several areas, such as: basic operations or management systems, technical or sectoral expertise, or conceptual and strategic orientation.

PVO Policy Task Force Working Group #4: Capacity Building  
2nd Meeting, August 6, 1993, 3-4:30 p.m.

Capacity building: Discussion of definition

=====  
continue benefit flows  
beneficiaries  
participatory, respect  
confidence building effect  
=====

Focus on self-sustaining institutions, not activities. Some activities are not or need not be sustainable in the long-term.

Sustainability vs. capacity building?

Question is are the activities that the organization is carrying out, is the institution that's achieving capacity responding to the perceived greatest need?

- look at impact on beneficiaries
- look at continued benefit flows
- look at the confidence building effect

Problem with the word empowerment is that it implies that that which is being empowered is an object, i.e. that we are doing something to someone or something else.

### Programming Models and Options

- o More alliances within U.S. PVOs, NGOs, other donors, other governments (e.g. writing proposals together and working in field together).
- o Direct A.I.D. funding to indigenous NGOs (this would eliminate the U.S. PVO as intermediary).
- o International NGO as intermediary, as technical assistance provider -- could progress through stages.
- o Longer term commitments, especially with NGOs, particularly concerning donor-recipient funding mechanisms and relationships between U.S. PVOs and indigenous NGOs.
  - Need to extend the donor's timeframe.
- o Identify performance measurements and standards along a "continuum" (moving from one level to the next, etc.).
- o Use/identify "local" talent; share resources at the local level.
- o Measure and value unintended outcomes.
- o Create a stable of talent to draw upon.
- o Train executive leadership.
- o Share technical resources in partnerships and alliances.
  - U.S. PVOs should share their experience without endangering the development of capacities at the local level, i.e. don't relay the sense that "we know what's best and we're the only ones who can do it."
- o Promote mentor relationships.
- o Streamline/adapt A.I.D.'s approval process to accommodate the needs of small PVOs and NGOs.
  - Need a quicker turnaround on requests for funding.
- o Larger grantees can subgrant on their own with smaller PVOs.
- o Small grants authority (e.g. Peace Corps SPA, Ambassador's Self-Help Fund).
  - Important to keep in mind their links to long-term comprehensive interventions.

PVO Policy Task Force Working Group: Capacity Building  
2nd Meeting, August 6, 1993, 3-4:30 p.m.

- o How is capacity building different for PVOs and NGOs?
- o How can we approach the issue of recurring costs?
  - Look at microenterprise, income-generation projects for examples.
- o Encourage more flexible cost-sharing options.

PVO Policy Task Force Working Group #4: Capacity Building

PARTICIPANTS IN THE FOCUS GROUP, AUGUST 20, 1993

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Bill Le Clere, Consultant

Ada Jo Mann, ARS

Melissa Nuwaysir, ARS

## CONCEPT TESTING MEETING

August 20, 1993

### Overview:

The objective of this Focus Group is to explore creatively options to be presented to policy-makers on the subject of "Capacity Building for PVOs and NGOs."

This is not an either/or exercise of choosing one option over the others. It is an opportunity to provide policy-makers with the best thinking of the "Capacity Building" workgroup, along with others invited to participate, for future development.

### Preparation for Focus Group:

Staff have taken the outputs from the two meetings of the workgroup (July 30 and August 6) and reformulated much of that thinking for this Focus Group discussion.

Below is the working definition which emerged from those meetings:

**Capacity building is a long-term, evolutionary, dynamic and participatory process in which an organization is empowered to develop and/or meet its institutional objectives and to work toward self-sustainability. Capacity building can occur in several areas, such as: basic operations or management systems, technical or sectoral expertise, or conceptual and strategic orientation.**

Building on that definition, staff developed three Concept Boards which each enhance and apply the definition differently. The format of each Concept Board is as follows:

**Title:** Title or label for that approach to capacity building.

**Promise:** The promise that approach implies.

**Challenges:** The challenges that approach will directly address.

**Features:** Major features to that approach to capacity building.

**Reasons to Believe:** Evidence that the approach will work as promised.

**Expected Outcomes:**

The major outcome will be a paper summarizing and synthesizing the results of the Focus Group. We are NOT seeking consensus. Discussion of differences in reactions to the Concept Boards will provide rich input for policy-makers to build on. We are interested in both:

- o Attractiveness of concept options presented; and,
- o Clarity and quality of language used to describe concepts.

Some of you may disagree with the ways in which staff have mixed and matched various elements of the Concept Boards. For example, you may believe that this feature over here actually fits better over there. We welcome such differences in perception and hope they will be brought out and discussed.

You will be invited to edit language and to code specific words and phrases which are most and least attractive to you as ways to describe the concept options.

Staff will summarize and synthesize the results of the Focus Group.

**THANK YOU IN ADVANCE FOR YOUR WILLINGNESS TO PARTICIPATE IN THIS MEETING.**

**TITLE:** A.I.D.'S SUPPORT FOR BUILDING U.S. PVO CAPACITY

**PROMISE:** STRENGTHEN THE PARTNERSHIP BETWEEN A.I.D. AND U.S. PVOs AS PROVIDERS OF DEVELOPMENT ASSISTANCE

**CHALLENGES:**

- ◆ ENHANCES PVO CAPACITY TO PERFORM IN AREAS WHERE THEY LACK EXPERIENCE, EXPERTISE OR PRIVATE SUPPORT
- ◆ INCREASES A.I.D.'S CONFIDENCE IN PVO MANAGEMENT CAPABILITY
- ◆ HELPS PVOs DEAL MORE EFFECTIVELY WITH A.I.D.'S FUNDING AND PROGRAM REQUIREMENTS
- ◆ ADDRESSES ISSUE OF A.I.D.'S DIMINISHING FINANCIAL AND HUMAN RESOURCES

**FEATURES:**

- ◆ INCREASED FINANCIAL RESOURCES AVAILABLE FOR PVO INSTITUTION BUILDING INCLUDING IMPROVED MANAGEMENT SYSTEMS, TRAINING AT ALL LEVELS AND R&D FOR INNOVATIVE PROGRAM DESIGN AND DELIVERY
- ◆ GREATER AUTONOMY FOR PVO PROGRAM DESIGN
- ◆ PVO ABILITY TO MANAGE DEVELOPMENT ASSISTANCE IN COUNTRIES WHERE THERE IS NO A.I.D. PRESENCE
- ◆ PVOs BECOME VEHICLES FOR RAPID RESPONSE

**REASONS TO BELIEVE:**

RESEARCH HAS SHOWN THAT U.S. PVOs ARE EFFECTIVE AT ENGAGING PEOPLE IN THEIR OWN DEVELOPMENT. SUPPORTING PVO INSTITUTION BUILDING IS A COST EFFECTIVE USE OF A.I.D. RESOURCES.

**TITLE:** A.I.D.'S STRENGTHENING OF U.S. PVOs AS FACILITATORS OF NGO CAPACITY

**PROMISE:** PROVIDE RESOURCES TO STRENGTHEN THE PARTNERSHIP BETWEEN U.S. PVOs AND LOCAL NGOs

**CHALLENGES:**

- ◆ ACCELERATES U.S. PVO'S MOVE FROM DIRECT PROVIDER OF SERVICES TOWARD DEVELOPING LOCAL CAPACITY
- ◆ ENHANCES PROSPECTS FOR SUSTAINABILITY AT LOCAL LEVEL
- ◆ LEADS TO LONGER TERM IMPACT THROUGH WISER USE OF LIMITED RESOURCES

**FEATURES:**

- ◆ U.S. PVOs STAFFED WITH PEOPLE SKILLED AT TECHNOLOGY TRANSFER AND TRAINING OF TRAINERS
- ◆ A.I.D. RESOURCES USED TO DEVELOP U.S. PVOs AS MENTORS FOR LOCAL NGOs
- ◆ EMPHASIS ON STRENGTHENING INDEPENDENT SECTOR IN DEVELOPING COUNTRIES
- ◆ LOCAL NGOs HAVE STRONGER VOICE IN PROGRAM DESIGN AND IMPLEMENTATION
- ◆ INCREASED COLLABORATION AND ALLIANCES AMONG U.S. PVOs AND LOCAL NGOs
- ◆ COMMITMENT TO LONGER TERM INTERVENTIONS

**REASONS TO BELIEVE:**

RESEARCH AND EXPERIENCE HAVE SHOWN THAT U.S. PVOs CAN SUCCESSFULLY ENHANCE THE CAPACITY OF LOCAL NGOs TO ACHIEVE SUSTAINABLE DEVELOPMENT IN A COST EFFECTIVE WAY.

**TITLE:** A.I.D.'S DIRECT SUPPORT FOR BUILDING LOCAL NGO CAPACITY

**PROMISE:** PROVIDING RESOURCES TO LOCAL NGOs STRENGTHENS THE INDEPENDENT SECTOR AND HELPS BUILD "CIVIL SOCIETY"

**CHALLENGES:**

- ◆ INCREASES CAPACITY OF NGOs TO ACHIEVE THEIR GOALS
- ◆ INCREASES A.I.D.'S CONFIDENCE IN LOCAL NGOs' MANAGEMENT AND ACCOUNTABILITY
- ◆ PROMOTES SUSTAINABILITY AT LOCAL LEVEL
- ◆ CONTRIBUTES TO GREATER TRUST BETWEEN A.I.D. AND LOCAL NGOs

**FEATURES:**

- ◆ INCREASED FINANCIAL RESOURCES AVAILABLE FOR NGO INSTITUTION BUILDING, INCLUDING DEVELOPMENT OF MANAGEMENT SYSTEMS AND TRAINING AT MANY LEVELS
- ◆ GREATER AUTONOMY FOR NGO PROGRAM DESIGN
- ◆ NGOs BECOME VEHICLES FOR MORE RAPID RESPONSE
- ◆ MORE STREAMLINED TRANSFER OF RESOURCES AND TECHNOLOGY
- ◆ STRENGTHENS THE PARTNERSHIP BETWEEN A.I.D. AND NGOs

**REASONS TO BELIEVE:**

EXPERIENCE SUPPORTED BY FIELD RESEARCH HAS DEMONSTRATED THAT DIRECT FUNDING OF LOCALLY DESIGNED DEVELOPMENT INITIATIVES RESULTS IN MORE RAPID ENHANCEMENT OF THE CAPACITY OF LOCAL INSTITUTIONS AND MORE RAPID RESPONSE TO THE NEEDS OF BENEFICIARIES.

FINAL REPORT

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**STREAMLINING THE PROCUREMENT PROCESS  
AND  
REDUCING ADMINISTRATIVE REQUIREMENTS**

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*Prepared for:*

*THE AID/PVO TASK FORCE*

*Prepared by:*

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*September 23, 1993*

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## I. EXECUTIVE SUMMARY

This Working Group is charged with making recommendations for streamlining the procurement process and reducing administrative demands in the PVO/A.I.D. relationship. After meetings with members of the PVO community and A.I.D. procurement, project, audit and FHA/PVC staff, we found that the process of registration, negotiation, implementation and audit of PVO programs is rife with redundancies, probably costs more than it saves, does an imperfect job of protecting the government, stifles risk taking and program impact, and generally makes everyone unhappy. To quote the Report of the National Performance Review, "{T}he cure has become indistinguishable from the disease."

The system, which we defined as the stages of registration, proposal/negotiation, implementation, and evaluation/audit, is affected by numerous Statutes, OMB and other government regulations, including A.I.D. Policy Papers and Handbooks. The stages are seen as too sequentially segmented. Each step of the process, from registration to negotiation of agreements, to implementation and to audit, can mean resubmission of financial and technical information. Almost any A.I.D. employee involved at any stage of the process can revisit any financial or technical point, leading to delays and duplication. It is seen as heavily skewed toward "input monitoring", driven by fear of vulnerability to "fraud, waste and abuse", negative Congressional reaction and bad press. Negotiation is not with a person, but with a bureaucratic system. Implementation most frequently requires prior A.I.D. approval for many actions necessary to proceed. Yet the audit system is not seen as perfect in protecting the taxpayer, making it difficult to accept risk earlier in the process. Program impact is subordinate to fear of vulnerability.

We conclude that opportunity to reform the system exists, but that the administration must develop a comprehensive view of the system. Most feel that vulnerability, particularly to waste, can be reduced and that the savings could be redirected to enhance program impact. Established lines of authority have created bureaucratic power centers that will be difficult to change, with potential vulnerability becoming the shibboleth of the advocates of status quo and marginal change. The degree of increased efficiency to be gained will be proportional to the amount of political commitment to change, the degree to which we are willing to take risks, and to the amount of effort the agency is willing to put into change. A.I.D., alone, can't change the system. We are only a part of the much larger federal system. The Congress, OMB and GAO should be important players in any attempt to change the system. The proper balance between efficiency and vulnerability will be difficult to achieve, as maintaining an acceptable level of vulnerability will be the test applied to any proposed changes in the process.

Streamlining the process will require more than just implementing the individual recommendations in this report. Taken individually the recommendations will have marginal impact on efficiency in the system. Broader issues of authority and responsibility can have a

much greater impact. Authority to act must be delegated to those who have responsibility for implementation, both to the PVOs and to A.I.D. projects staff. Authority now runs from Section 635(b) of the Foreign Assistance Act through the Administrator, through AA/FA to the contracts staff, with little or no authority in the hands of the line officers in the agency. A system that assigns authority to one party and responsibility to another will not work.

The **registration** process could be a valuable tool to improve the process, such as in the "determination of responsibility" of a PVO (now done on an obligation-by-obligation basis), thus eliminating the need for multiple submission of documents such as financial statements, "representations and certifications", etc. for every grant negotiation. Much of the financial information required for registration is also required in proposals and in the audit process. The process is seen as discouraging small PVOs from registering. Requirements for registration of client country PVOs is not uniform. The current annual re-registration requirement is seen as burdensome to the PVOs, with slight reporting changes from year-to-year, requiring that PVOs "start from scratch". The form required for re-registration requires information already given to A.I.D., is time consuming, and it forces PVOs to recompute existing financial data to fit the form.

The disconnect between registration and negotiation and audit is costly. In addition to the resulting duplication of paperwork, it hides opportunities to use registration to reduce the number of approvals needed for PVOs to take action, e.g., approving a PVO procurement system, thus negating the need for the PVO to come to A.I.D. for prior approval to buy something. Post-implementation audit could replace prior approval as a more cost-effective way of doing business.

The **negotiation** process is the most frustrating to the PVOs and to A.I.D. The most common complaint is that there is no way to predict how much time it will take, and that "no one is in charge". From the time a proposal is submitted until there is a technical response can take six months, with another six months until execution of an agreement. Competed grants take less time than unsolicited proposals, because time deadlines exist in the competition process. But even that system is too long and expensive. The fact that the technical review by the project staff and the negotiation by the grant officer are sequential, and not well connected, results in duplication in requests for information, slowing the process.

The PVOs feel there is little distinction between negotiating a "grant" as opposed to a "cooperative agreement", and that the system isn't much different from negotiating a contract. The problems are exacerbated by the A.I.D. desire to negotiate inputs, as a way to address vulnerability, in part because of the difficulty in finding a way to define impact and put a value on it. The current budgeting system, and a lack of discipline in the overall system, results in most requests to negotiate an agreement reaching the grant office in budgets close to the end of the fiscal year.

The mission system, where the grant officer is seen as more a part of an A.I.D. team, is viewed as a preferable model. Movement should be toward a system that pays for impact, and that forces A.I.D. project and contracts office staff to review proposals from the beginning of the process as a team, rather than as different offices with overlapping responsibilities. Many of the requests for documentation and information now present in each negotiation can be centralized as part of the registration process, and verified as part of the audit process.

The **implementation** process is seen as a continuation of A.I.D. performing input monitoring to reduce vulnerability, rather than being concerned with impact. A.I.D. oversight during implementation is extensive, though in audit after audit we are criticized for not being more involved. Prior approval of workplans, schedules and individual actions is the rule, not the exception. Prior approval for travel is seen as particularly bothersome, particularly as the regulations call for "notification" only. A.I.D. project officers continue to require prior "approval", slowing down the process. Even when the PVO has an approved procurement system, prior approval is required for purchase of goods and services. The degree of involvement of A.I.D. in implementation decision-making brings into question whose project it really is.

The addition of incremental funding to the project results in a renegotiation of the project budget. No cost project extensions require "too much paperwork."

**Reporting** requirements are not uniform, seem to be open-ended in what is required, and almost never result in any feed-back to the PVO submitting the report. There are frequent ad-hoc requests for reporting, particularly on inputs. The PVOs feel that A.I.D. doesn't know what is wanted in a report, so the PVO tries to report on everything. With some PVOs having as many as 50 different agreements with A.I.D., each with multiple and differing reporting requirements, the cost to the system is enormous.

The **audit** function, because of the fear of vulnerability, is also input focussed. OMB Circular A-133 is viewed as burdensome, and it is felt that the IG requirements for information are increasing. The audit process is viewed as disconnected from registration and negotiation, with opportunity for savings in time and paperwork lost. The role of contracted audit services was questioned as some audit firms did not seem familiar with A.I.D. requirements, possibly requiring certification of such audit firms. There was a strong sense that a better audit system could replace much of the input monitoring currently being done by the contracts and projects staffs, freeing people in both A.I.D. and the PVOs to focus on impact of the program.

## II. REGISTRATION

### Findings:

1. There is confusion in the PVO community and in A.I.D. on who is required to register. Some feel all must register, and some feel registration is required only for certain programs, e.g., matching grants.
2. The registration process is labor intensive, takes up to six months and discourages smaller PVOs from registering. It was noted that contractors don't have to register to receive A.I.D. funding. Registration is seen as additional to the normal pre-award requirements PVOs would have to go through in any event.
3. Annual re-registration is burdensome, and its value is questioned. Re-registration guidelines change slightly each year, forcing PVOs to "start from scratch". The form used (1550-2) is duplicative, time consuming, and forces PVOs to recompute existing financial statements to fit the form.
4. Exceptions to registration (e.g., contractors subcontracting to unregistered PVOs) are inconsistent with the intent of the process.
5. Financial information submitted as part of registration is also requested as part of the negotiation and audit processes.

### Recommendations:

1. The registration process must be used as a central point for receipt of information now being requested by multiple sources within A.I.D.
2. Registration should be used to "determine responsibility" of a PVO, probably on an annual basis, to replace the current transaction-by-transaction system requiring a Grant Officer determination.
3. Registration should be used to have PVOs "represent and certify" for the many standard requirements, (e.g., EEO compliance) now being requested for each transaction.
4. Registration should be used to approve PVO procurement, personnel and other systems to replace the current system of having PVOs get approval for actions during implementation.

### III. NEGOTIATION

#### Findings:

1. The PVOs feel that, while A.I.D. controls the process, there is no single person in charge of the process in A.I.D. The answer they always get when checking on the status of documents is, "It's in contracts". There is no way to predict when action will be taken. It appears that A.I.D. spend more time negotiating with each other over process than they do with the PVOs over substantive issues.
2. There is duplication between the program staff and the contracts staff in information requested. Anybody feels the right to ask any question at any point in the negotiations.
3. The specter of vulnerability drives A.I.D. to negotiate inputs at the expense of impact.
4. Competed grants seem to take less time or, at least have deadlines. Even at that the OFDA grants take 6 to 8 weeks, the Matching Grants, 10 months and Child Survival grants, up to a year.
5. Too frequently program officers try to negotiate what goes into the base for the PVO overhead calculations. Similarly contracts officers frequently try to reduce home office costs, even where the A.I.D. program people want increases.
6. Because the contracts office is infrequently involved in the project review process, the PVOs feel they are starting from the beginning again when negotiations begin.
7. The PVOs feel that the contracts staff gets too involved in questioning program decisions.
8. Bunching of workload at the end of the fiscal year, caused by late budget allocations and poor planning, makes the problem worse.
9. There is no distinction between grants and cooperative agreements in working with A.I.D. In fact, PVOs feel there is little distinction between negotiating a contract and a grant. This is primarily because of the focus by A.I.D. on inputs.
10. This is the most frustrating segment of the process.

Recommendations:

1. **The contracts and program staffs must work together, from the beginning of the process, as a team on each program.** The PVOs cite the mission system, where the contracts officer is more a part of a team than seems to be the case in Washington., as a much faster system.
2. **If A.I.D. and the PVOs could develop a performance based evaluation and new award system and better post-performance audit capability, the need for input negotiation would be eliminated.** All agree that this is easier said than done. Difficult and changing circumstances in developing countries makes it difficult to benchmark performance much into the future. A.I.D. staff has a strong aversion to risk of failure, driven by fear of negative audits by the IG and the GAO.
3. **Workload in the contracts office could be reduced by delegating some authority to "obligate" A.I.D. to the program staff.** Delegating authority lower and wider in the system can be accomplished with training. Many A.I.D. staff have enough experience in negotiating with PVOs to allow this type of "reinventing" to be tried. The bureaucratic response to this will be to fight it, on the basis of vulnerability, but we believe it should be tried.
4. **Since overhead rates and the bases to which these rates apply are matters of negotiation between the PVO and A.I.D.'s Overhead and Special Cost Branch, Project and Contracts officers should not attempt to negotiate further relative to these items on individual grant awards.**

## IV. IMPLEMENTATION

### Findings:

1. **The procurement/audit system drives A.I.D. to monitor inputs, resulting in less than optimum performance.** For example, the Child Survival grants state that the A.I.D. project manager has the right to approve "all areas" of annual work plans; all revisions to workplans; all field visits; all consultants; all who will be trained; and the program manager. The PVOs characterize it as like "having a policeman in every room of the house".
2. **While grant agreements require only prior notification of travel, A.I.D. staff demands prior approval.** Even the notification requirement is seen by many PVOs as overly bureaucratic, generating thousands of pieces of paper each year.
3. **While grantee procurement and personnel systems are approved prior to implementation, A.I.D. still insists on approving purchases, hiring/compensation and other PVO actions.** This results in slowing implementation, and is viewed by the PVOs as unnecessary incursion on decision making.
4. **"No-cost" extensions require too much paper work.**
5. **Incremental funding actions frequently mean total renegotiation of the grant budget.**
6. **Individual grants have different reporting requirements. Reporting requirements are duplicative, e.g., requiring a second quarter report at the same time as a semiannual reports.** The PVOs feel A.I.D. requirements are growing in frequency and type. For example the Child Survival grant program requires, in addition to financial reports, quarterly reports (detail on accomplishments quantified and related to cost data, all trip reports of any international travel, and status of financials; a detailed implementation plan (not later than 6 months after start) with critical path indicators; a mid-term evaluation (to review progress, provide financial pipeline analysis, to include curriculum used and a questionnaire); an annual program performance report (showing accomplishments, quantified in relation to cost data); an action plan for the coming year (describing anticipated activities, schedule, locations and individuals to be involved, a by quarter schedule of publications, reports, workshops and seminars); special reports ("disclosure" of problems, delays and adverse conditions and action taken to resolve, favorable developments, need to change budget; environmental impact, if adverse; two quarterly training reports (both as required by Handbook 10 and a separate one with detailed information); summaries of technical and research activities (within 60 days of an activity); and a comprehensive final evaluation report (including everything previously asked for).

7. Frequent ad-hoc requests from A.I.D. require excessive time, particularly when A.I.D. is doing internal semiannual reviews.

8. A.I.D. is unclear on what it wants in reports, resulting in PVOs trying to guess what is wanted.

9. A.I.D. almost never responds when reports are submitted.

10. A.I.D. project officers have responsibility for monitoring implementation, but little authority to approve program changes.

Even though the grants require prior approval of the A.I.D. project manager for many actions, the project officer has little authority, requiring grant officer approval for any substantive change (particularly when cost is affected).

11. FHA/PVC feels it has neither the staff nor the mandate to set or enforce policy on certain aspects of the PVO/AID relationship, e.g, reporting.

**Recommendations:**

1. Much of the transaction-by-transaction approval can be eliminated by approving grantee procurement and other systems during registration. Better reporting and post implementation audit should replace prior approval as the tool to reduce vulnerability.

2. Reporting requirements should be more standardized to get A.I.D. information it needs, and to provide some certainty into the system for the PVOs. It was felt that many reports could be submitted semi-annually or annually rather than quarterly.

3. Delegating authority as well as responsibility to project officers should be explored. This was seen as key to any attempt to reinvent the process. Project officers were viewed as having responsibility for performance of grantees, but have no authority to make a decision that affects cost or program change. Current authority goes from the Administrator to AA/FA to DAA/FA to "professional grant officers" and to Mission Directors (up to \$100 thousand for cooperative agreements and \$5 million for grants).

4. Consider eliminating the requirement for notification of international travel, except when individual Missions deem it necessary for security or similar reasons.

## V. AUDIT

### Findings:

1. Redundancies exist between the contracts, project and audit staff requests for and review of financial information.
2. The PVOs support the efforts by the President's Council on Integrity and Efficiency to raise the dollar thresholds for requiring audits of subgrantees.
3. A.I.D. imposes standards in addition to those imposed by OMB.
4. The quality of contracted audit firms was questioned, as some are not familiar with A.I.D. requirements.
5. Costly audit discourages U.S. PVOs from working with local organizations.
6. IG desk audits of the PVO OMB A-133 reports are unnecessarily delaying action on revisions in indirect cost rates. By the time A-133 reports are resolved and A.I.D. is ready to finalize overhead rates, many grants have already expired, making recovery of upward adjusted rates impossible. The PVO is of course required to return any over-recovery if rates are adjusted downward.
7. Weaknesses in the current audit system need to be corrected if A.I.D. wants to move from input monitoring to post-implementation review. Too small a percent of programs are audited too infrequently to allow A.I.D. to move quickly to post-implementation monitoring.
8. Immaterial findings in audits too frequently receive the same attention as material findings.
9. Audit requirements make it difficult for small (particularly host country) PVOs to comply. It's very expensive and local firms cannot meet U.S. standards.
10. The IG desk review of all A-133 audits done by accounting firms can be considered as duplication of effort, with little additional safeguards for taxpayers.
11. At present the auditors issue 5 separate reports within the A-133 report, including internal controls of the entity, internal controls of individual programs, one or more on compliance with general requirements, and one or more on compliance with requirements specific to the program.

**12. Non-U.S. PVOs are not covered by the A-133 process. A.I.D. sets the requirements for audit.**

**Recommendations:**

- 1. The audit system and the registration system should be tied more closely together.**
- 2. Separate the indirect cost rate reviews from the IG desk audits of OMB A-133 reports. Kudos to IG for correcting this deficiency in an August 24 memo to the Director, FA/OP.**
- 3. Provide for a certification system for contracted auditors.**
- 4. Increase the reporting threshold for domestic subrecipients from the current \$25 thousand (single program) to \$100 thousand, and \$100 thousand (single entity) to \$250 thousand. This is in line with the recommendations on the Single Audit Act by the President's Council on Integrity and Efficiency.**
- 5. Eliminate the need for "immaterial" findings in A-133 audits.**

## VI. COMMENT ON COMPETITION

The Working Group was asked to comment on how A.I.D. assures meaningful competition by PVOs for scarce resources. Absent some statistical analysis of past and present practices it is difficult to determine how much of the funds going to PVOs is actually competed. Public Law 95-224, Federal Grant and Cooperative Agreement Act, 1977, as interpreted by A.I.D. Handbooks "encourages competition, where deemed appropriate" or "to the maximum extent practicable." Exceptions such as for unsolicited proposals, predominant capability, amendments, and others are widely used.

In the June draft GAO report, Foreign Assistance: Improvements needed in A.I.D.'s Oversight of Grants and Cooperative Agreements, found that 57% of the \$443 million granted by AID/W in 1991 was awarded without competition. (Note that this figure includes grants to educational institutions and other non-profits. No breakdown is available on PVOs). GAO thinks that puts A.I.D. in violation of the rules. A.I.D.'s response was 1) the pool of applicants is too small, 2) "local institutions sometimes cannot handle the administrative demands of the competitive award process", 3) our objective may be to strengthen a weak PVO, "rather than select the best organization available", and 4) non-U.S. PVOs often get small dollar grants which are "less likely to be competed". We don't think it's reasonable to judge whether or not 43% is good or bad, based on the information presented in the report.

The FHA/PVC matching grant program awards (\$50 million dollars per year [figure needs to be confirmed]) is competed by sending requests for applications to all 387 currently registered PVOs.

Others programs, e.g., Child Survival, are also competed. The Working Group did not have time to go to multiple sources for data on all programs, and can't comment on how much or how the competitions are conducted.

The GAO report also found that noncompetitive award justifications were not always prepared and some were superficial.

The "meaningful" competition standard in the Task Force question raises other issues.

The technical part of the competition starts with A.I.D. preparing the project description. The descriptions frequently cite what A.I.D. wants done, and how it wants it done. (You can't get a project approved without extensive "design" by A.I.D.). The result is A.I.D. telling the grantee what and how to do something. Some feel the process merely makes the PVO community into A.I.D.'s "mirror image", rather than allowing them the freedom to do the program the way they'd really like to do it.

There is a strong sentiment that results-based competition could get more impact at less cost. The difficulty in projecting program impact in developing countries, and the constant refrain that A.I.D. is already poorly managing grantees, will make it hard for A.I.D. to stop telling PVOs what and how to do with our money. A system that sets the objective, and asks who can meet or exceed it at the lowest cost is easy when your buying nails, but not so easy in development. The GAO report criticized A.I.D. for not sufficiently including or monitoring indicators in grants.

Also, competition is expensive to the PVO community. They are given short deadlines for submission; they wait; they are asked for data, technical and financial questions; they wait; if selected, they are asked for more data; they wait; and 6 months to a year after they started the process, they get a grant.

Is it meaningful to compete the cooperatives grant program, or that of IESC, or others with whom we have long-standing relationships? Probably not.

Assuring meaningful competition should be further explored. If more competition is called for, the system must be streamlined to accommodate it.

## VII. COMMENT ON SCOPE OF WORK

The scope of work provided the Working Group asked 5 questions, as follows:

**1. To what extent should this Task Force focus on providing broad policy guidance on these issues, which would then serve as an agenda for additional work by other task forces, versus actually getting into the rewriting of Agency regulations and reporting requirements.**

With the deadline for this report there is no way the Task Force could possibly get into rewriting regulations. Broad policy guidance is all that is possible. For follow-on work we don't recommend establishing multiple task forces, as that can lead to a continuation of segmentation of the regulatory framework. The agency should also avoid task forces where those heavily vested in status quo control the agenda and the outcome. If the dictates of the Report of the National Performance Review are to be met, a larger task force, with outside participation, working full-time, could take a long time to rewrite all the regulations.

**2. How (if at all) should we deal with the operational guidelines included in the current policy paper? By rewriting them? Excluding them?**

The current paper (if 9/82 is current) only discusses the problem in terms of "policy framework" and broad objectives" to reduce administrative costs to both A.I.D. and the PVOs, "by simplifying administrative procedures." It states as a "principle" that PVOs be given "ample scope for independence in design." The test for A.I.D. is the "comfort level" of the mission working with the PVO.

It is very weak on operational guidelines, appropriately so. It discusses "operational guidelines" only insofar as it provides definitions for various types of relationships, e.g., the difference between "operational program grants and "institution building grants." For all practical purposes, the agency treats all grants as "specific support", from negotiation through audit, making these distinctions without differences.

The policy paper does state that the PVO administrative relationship with A.I.D. will be simplified. That the number of grants mechanisms will be reduced, and that management will be standardized, with monitoring for consistent application of policy and program. It charges "FVA" with developing and monitoring simplified A.I.D. procedures. FHA stated they had neither the mandate, nor the staff to meet that charge.

While the policy paper should be rewritten, it is Handbooks that are cited as authority (or lack thereof), to act, not the Policy Paper. Everyone agrees Handbook 13 (Grants) needs to be redone.

One of the three recommendations of The 1993 Report of the Advisory Committee on Voluntary Foreign Aid was to put in place a "responsive organizational structure", with:

A central body to establish and monitor uniform policy with respect to the role and function of PVOs;

A structure that imparts a clear focal point of authority and responsibility regarding PVO affairs; and

A mandate within the confines of the federal procurement regulations to tailor operating procedures and the mechanics of grant making to program goals and special of the PVO community.

**3. In allocating scarce resources, how does A.I.D. assure meaningful competition among PVOs?**

See Section VI, COMMENT ON COMPETITION.

**4. U.S. PVOs are virtually unanimously opposed to A-133 audit requirements because of their time consuming nature. They are even more burdensome to local NGOs--in some cases, prohibitively expensive to do. What can A.I.D. do to eliminate this requirement and substitute simpler audit questions?**

No PVO opposes the intent of A-133. Everybody agrees that the government should confirm that the taxpayers dollars are reasonably spent. Every PVO is willing to show someone in the government, or authorized by the government, its accounting records. The problem is too many times, in too many forms, for too many people, at too many stages of the process. They have to prove themselves "responsible", i.e., submit financial and program information, during the six months it takes to register (and every year thereafter) to FHA/PVC, for every new obligation of funds, for as many as 50 differently written A.I.D. grants, again (almost constantly) during implementation, (OMB demands no less than quarterly), and, finally, when the A-133 auditors arrive.

**5. The Task Force asked us to see if the OMB apportionment process for Foreign Disaster Assistance was causing delays.**

Of the 11 apportionments thus far in FY 1993 only one took more than three days. OMB apportionments as they do because they "score" the funds at a high expenditure rate. They want to keep it in the treasury as long as possible. Most delays are caused by differences between FA/B, OFDA, and the regional bureaus on whether or not there is enough justification for requesting additional funds. Only when the differences are resolved does A.I.D. request apportionment.

A.I.D./PVO\* TASK FORCE

WORKING GROUP SIX  
INNOVATIVE MECHANISMS

DRAFT REPORT

SEPTEMBER 1993

\*NOTE: For the purposes of this report, the acronym, PVO, is used to refer to both US Private Voluntary Organizations, as well as US Cooperative Development Organizations.

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## PVO Members:

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Ronald Gollehon	ACDI
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## A.I.D. Members:

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Linda Howey	Africa Bureau
Jerry Hyman	Europe Bureau
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## List of Selected Acronyms Used in This Report

A.I.D. - U.S. Agency for International Development  
 PVO - Refers to both U.S. private voluntary organizations as  
 well as cooperative development organizations  
 NGO - Nongovernmental organization  
 OMB - Office of Management and Budget  
 F.M. - Office of Financial Management (A.I.D.)  
 G.C. - Office of General Counsel (A.I.D.)  
 I.G. - Office of Inspector General (A.I.D.)

**Working Group Six  
INNOVATIVE MECHANISMS**

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**PVO Task Force**  
**Working Group Six: Innovative Mechanisms**  
September 16, 1993

**I. SUMMARY**

There was general consensus in the group on the need to improve the working relationships between PVOs and A.I.D. to forge and reach common goals. There must be mutual acceptance of the validity of the different approaches used by A.I.D. and the PVOs to reach very similar objectives. This would involve acceptance of the comparative advantages of each group and the interdependence required to be successful in addressing development/humanitarian issues in the third world.

The task given to this working group was to examine existing innovations and current constraints to innovation and risk taking. Thus, this report focuses on what can be done now for immediate results or to create the underpinnings for expanding innovative results over the next two or three years. The working group did not attempt to be "visionary".

Improvements in the working relationship will require changes on both sides. Steps need to be taken within the Agency, as well as throughout the PVO community, to improve communication and information flow. One option for improving communication is the appointment of a Senior PVO Liaison Officer in A.I.D. to be responsible for coordination and enhanced information exchange. There was a general belief that there is a need for increased willingness to take less conservative approaches in pursuit of development impacts. To capture this idea of less conservative, more innovative approaches, the group has used the phrase "risk-taking".

For A.I.D., there is a need to streamline procurement and accountability requirements to allow improved focus on substantive issues and development impact. At the same time, steps must be taken within the PVO community to enhance program and financial management capabilities, as well as strategic planning and evaluation capabilities. These efforts on the part of the PVO community are not dealt with in detail in this report but should be part of an ongoing process to improve and reshape working relationships.

As an underlying premise, the Group found no conflict between innovation on the one hand and maintaining strict accountability standards on the other. There was agreement that PVO reporting requirements could be decreased and A.I.D.'s management role be based on substantive involvement with no sacrifice of accountability.

Major cross-cutting themes of the discussions include: 1) the need to allow new PVOs/NGOs to become partners in the process; 2) the need to foster funding mechanisms and managerial approaches which allow A.I.D.-funded programs to continue where there is no A.I.D. presence.

Innovative mechanisms explored by the group include:

I. **FUNDING MECHANISMS:** Endowments; Debt Swaps; Joint [parallel] donor funding; Increased interaction with "For Profit Firms". [Note: Increased monetization of food aid was tabled but not pursued as the Food Aid Consultative Group will report on this separately].

II. **PROGRAMMING MECHANISMS:**

A) Existing mechanisms which need to be revised: Direct funding of PVOs/NGOs where there is no A.I.D. presence; Umbrella grants; Co-operative agreements; Matching Grants.

B) New approaches which should be implemented: Foundations; Improved linkage of relief and development objectives; Rolling designs; and, Innovative grants.

The Group believed that each of these approaches should be explored and implemented. It noted that some will be easier to implement than others. Changes in such mechanisms as Debt Swaps, Cooperative Agreements, Umbrella Grants, and Matching Grants could be implemented fairly easily. Implementation of others such as Endowments, Joint [Parallel] Funding, Increased interaction with "For Profit Firms", Foundations, Rolling Designs, Innovation Grants, and Linkage Between Relief and Development would take more work and therefore more time.

The general conclusion in the group is that the communication fostered by the Task Force is constructive and the process itself may be as useful as a final written document. The group believes that the collaborative process should continue to identify and pursue discreet steps/changes which will improve the working relationship and therefore our joint development/humanitarian programs.

II. INTRODUCTION

As the group began its deliberations, it set out to define the objectives of the group and proposed product, as well as the meaning of "innovation" and "mechanism". The following definition was developed:

"Innovative mechanisms are deliberate actions which--  
1) meet new needs through program activity which has not been undertaken before, not been done extensively, or can be done only through modifying certain program activity to meet special needs of countries which have not participated in this type of program activity before;

- 2) provide funding to PVOs in ways that have not been done before or not done widely; and,
- 3) streamline administrative processes within A.I.D. to shorten the time and expense it takes to negotiate and finalize contracts, procurement, reporting, evaluations, etc.

As the group discussed the options for focus, the overriding concern expressed by the majority was with innovative A.I.D.-PVO funding mechanisms. Though there was general acknowledgement of its importance, there was less immediate concern with innovative approaches to development to increase success and impact as the appropriate subject matter for group discussions.

There was a general consensus of the group on following themes:

- need to change the A.I.D./PVO "culture"; to be based on trust rather than the current paternalism on the part of A.I.D. towards PVOs and mistrust on the part of PVOs towards A.I.D.;
- in order to change the "culture", incentives, rewards and penalties will need to change;
- need to encourage increased participation by PVOs in planning, design, implementation and evaluation of development/humanitarian activities;
- need to incorporate flexibility, risk taking, longer-term and multi-country approaches;
- need to change the current balance of over emphasis on financial accountability and inadequate emphasis on results;
- need to recognize trade-offs: if A.I.D. is to become less directive and intrusive, PVOs must take more direct responsibility. In addition, policy, regulations and statutes must explicitly acknowledge and allow for the change in responsibilities;
- need to focus on sustainability/self-sufficiency as issues;
- need for improved evaluation/assessment capability among PVOs.

III: CROSS-CUTTING ISSUES:  
RISK TAKING AND INNOVATION; COORDINATION AND INFORMATION  
EXCHANGE; BUILDING PVO CAPACITY; A.I.D. DOWNSIZING

A. RISK TAKING AND INNOVATION

SITUATION AND CHALLENGE:

Throughout the deliberations of Working Group Six, questions continually arose as to how to define innovation or a willingness to change and adapt to new situations in ways which recognized A.I.D.'s desire to promote development while maintaining strict accountability standards. The group recognized that the Agency's mission is to operate in high risk areas and that neither Congress nor OMB is interested in seeing A.I.D. undertake substantially greater risks. At the same time, Working Group Six agreed with the conclusion of another working group that currently A.I.D. can be characterized as an institution managed by fear. At least on the implementation or transactional level, many A.I.D. employees are reluctant to attempt new approaches either because of the time required to be allowed to do something new or concern that one unsuccessful project could be damaging to an A.I.D. career.

This view is reflected in the Vice President's National Performance Review of the federal government which stated that the current approach of the Inspector General inhibits innovation by federal employees who feel compelled to "follow every rule, document every decision and fill out every form". There was agreement that this should change and that the Agency should actively promote creative approaches, including increased risk taking.

This would involve increased tolerance for attempting activities that do not work out as successfully as expected. Because A.I.D. has fiduciary responsibility for taxpayers money, undertaking more explicitly risky activities will require an upfront understanding by all A.I.D. and PVO staff involved.

The Working Group emphasized the difference between the "actual", substantive risks of failure confronted by development projects in the field as opposed to the "perceived" risks as seen by Bureaucrats. An example given was the long lead time required by A.I.D. for project design and contracting. Though the "perceived" bureaucratic risks -- alleged haste or lack of competition -- may be addressed by elaborate preparation, the project may incur greater "actual" risk of failure when it is finally implemented because it is no longer relevant to the field situation.

Most A.I.D.-financed projects are grants and the benefit streams are often calculated in terms which are not strictly financial. In spite of this, A.I.D. could take some lessons from private business and banking (see in Appendix) as to the appropriate balance to be struck between encouraging more risk taking as a means to achieve greater or faster developmental benefits and still

ensuring accountability. The balance will differ by sector and subject.

INNOVATION- CONSTRAINTS:

The entire A.I.D. system is set up to encourage conservative financial management and accountability. It discourages its own employees, grantees and contractors from promising more than they are sure they can deliver.

Specific offices would have particular concern with increased explicit risk taking. These include the Office of Financial Management (FM), Contracts, and the Office of the General Counsel (GC).

The Congress expresses very little faith in A.I.D.'s ability to use appropriated dollars effectively. There is little reason to believe that Congress would encourage increased risk taking.

The Office of Management and Budget (OMB) also evidences very little faith in A.I.D.'s ability to use appropriated dollars well. There is little reason to believe that OMB would sanction increased risk taking.

INNOVATIONS- SOLUTIONS:

One means of encouraging more risk taking would be to set up a small fund in interested Missions to be used explicitly for high risk ventures. After a period of three years, the success/failure rates of these ventures could be determined with recommendations on whether or not to continue such activities.

A second approach is to actively encourage creativity and risk-taking among A.I.D. employees. A.I.D. Senior Management can and should make speeches and provide written communication advocating more risk taking and innovation, including recognition and acceptance that being more innovative will necessarily mean some projects or activities undertaken after careful consideration and recognition of higher levels of risk will not work out.

[NOTE: It must be made clear that there is a significant difference between poor management and taking a well-reasoned risk where the benefits of success are significant but not assured].

These actions will be necessary but in themselves will not be sufficient. The incentive system within A.I.D. will have to be changed. A number of actions can be done to change the incentives to promote innovation and risk taking:

- Awards can be given for the best innovative projects;
- Innovation and risk taking should be built into personnel evaluation systems;

- A section on innovation and risk could be built into the DSP (Development Studies Program). This could include case studies of successes and failures and lessons to be learned;
- Innovative approaches or projects can be highlighted within various units of A.I.D. and "champions" for individual projects or activities can be designated and given responsibility to encourage and nurture these projects and report out on lessons learned;
- Individual Bureaus and other units should be required to develop the trade-offs expected from more innovation and risk taking and the degree of failure that will be accepted;
- A.I.D. is in the process of changing the way it carries out its development mission because of the pressures of downsizing and other factors and is considering relying more on PVO's and Cooperatives. At this juncture, internships, secondments or an executive exchange program between A.I.D. and PVOs may be beneficial. As A.I.D. withdraws from a specific country, it may decide to maintain U.S. presence by creating an umbrella group to make grants and facilitate program activity. In this case, placing an A.I.D. person(s) in the unit for an extended period could dramatically reduce risks. An executive exchange program could also allow PVO/Coop officers to work in A.I.D. units that would prepare them to deal better with whatever aspects of change that are of greatest concern to A.I.D.
- The Inspector General's Office (IG) and the Procurement Office should participate in A.I.D. staff education programs designed to promote and encourage more innovation and risk taking by explaining: a) what sort of documentation they expect to see when an innovative or risky effort is to be undertaken and b) the type of reporting that would be required as a project passes various milestones.

## **B. IMPROVED COORDINATION AND INFORMATION EXCHANGE**

### **SITUATION AND THE CHALLENGE:**

There is currently in A.I.D. and the PVO community an over abundance of information, regulations, policy and implementation guidance on PVO programs. There is a sense that adequate communication and reliable information dissemination is lacking. In addition, there is an overall lack of coordination among the different actors within A.I.D. and in the PVO community.

**Needed Mechanism:** The creation of a Senior PVO Liaison/Advocate position within A.I.D., operating at a senior level within the Agency.

BACKGROUND:

A.I.D. is committed to a continuing, improved partnership with the PVO community. The interdependence between the two has never been more apparent, particularly during the time of great need and diminishing resources.

The Office of Private and Voluntary Cooperation (PVC) within the Bureau for Food and Humanitarian Assistance (FHA) serves as A.I.D.'s central point of contact for PVO coordination and information dissemination. Other Bureaus/Offices and Missions have PVO Coordinators/Liaisons some of which are also extremely effective within their own framework. In addition, PVOs have individuals/offices which serve in a liaison capacity to A.I.D.

Either due to or in spite of the existence of several entities within A.I.D. dedicated to PVO relations, the PVO community has expressed a need for improved information exchange and coordination with A.I.D. It may be that because the PVO Office is housed in a central Bureau, it is unable to serve in an over-arching, policy coordination, troubleshooting capacity.

INFORMATION- CONSTRAINTS:

The different regions -- and sub-regions -- in the world have achieved different levels of development and therefore require different types of development interventions. For this reason, different Regional Bureaus and Missions have developed their own approaches to both US PVOs and local NGOs. It may be counter-productive to overly centralize PVO contacts in the Agency and lose the flexibility and responsiveness required for successful efforts in developing countries.

A second problem is to maintain open discussion of PVO policy issues and the working relationships between PVOs and A.I.D. Access by PVOs to a central point should not short-cut this discussion, nor should it provide advantages to some PVOs over others or destroy the balance between the needs of beneficiaries in the field and requirements of headquarters.

INFORMATION- PROPOSED SOLUTIONS

Create a Senior PVO Liaison/Advocate position at A.I.D. The Advocate's responsibilities would include:

- in collaboration with PVC, reviewing existing PVO Coordinator/Liaison functions within A.I.D., to establish better mechanisms for coordination and information exchange both within A.I.D. and between A.I.D. and the PVO community;
- responding to and resolving operational/bureaucratic obstacles within A.I.D. as identified by both PVOs and A.I.D. staff;

- ensuring that the consultative process initiated by the Task Force Working Groups is sustained, through A.I.D.-PVO working groups, and/or other appropriate mechanisms.

### C. ENCOURAGING NEW PVOs and NEW FUNCTIONS OF EXISTING PVOs

CURRENT SITUATION: A.I.D.'s support for emerging PVOs and the strengthening of new functions/capacities of existing PVOs has been typically carried out through the Bureau for Food and Humanitarian Assistance/Office of Private and Voluntary Cooperation (FHA/PVC), in coordination with the regional and other bureaus within A.I.D.

Funding for both new and established PVO activities is provided through USA.I.D. Missions in the field and A.I.D.'s Regional Bureaus in Washington. Funding mechanisms for PVOs are comprised of OPGs (Operational Program Grants and co-financing program grants). The OPG program may support direct service delivery and provision of technical assistance and training or may involve institutional strengthening of a US or local PVO partner. Co-financing or umbrella grants are a variation of the OPG program. Costs of all projects supported by OPGs, co-financing, or umbrella grants are shared by PVOs. A.I.D. funding is limited to a maximum of 75 percent of total program costs. The remaining 25 percent must come from non-A.I.D. sources and may be a combination of cash or in-kind contributions obtained by the PVO. (See Appendix B2)

ENCOURAGING PVOs- CONSTRAINT: A.I.D.'s financial and human resources are diminishing. Also, A.I.D. is making plans to reduce its direct presence in a number of countries.

In the past, efforts to encourage new PVOs and facilitate new functions/capacities of already established PVOs has been an evolutionary process. During the times of Congressional earmarks for institutional strengthening of PVOs and rapid appraisal training, A.I.D. provided multi-million dollar awards to intermediaries such as PACT to provide institutional-strengthening support to smaller or newer PVOs. As Congressional funds decreased, the FHA/PVC office, for example, designed a two-year pilot outreach funding mechanism to bring in new PVOs with grants up to \$60,000 to \$ 100,000. Four new PVOs were funded and the pilot mechanism is completing its first year of operation. This mechanism, however, is in danger of being terminated because A.I.D. has no financial and human resources available to continue the program for the next few years. As a result, the success of the program cannot be evaluated.

The FHA/PVC office, specifically, is in the process of reviewing appropriate vehicles to increase financial and human resources and seek out independent intermediaries through a competitive process, but its efforts are hampered because of lack of funding being allocated to initiate these activities.

ENCOURAGING PVOs- SOLUTIONS:

- Introduction of funding mechanisms that encourage emerging PVOs and new functions/capacities of existing PVOs should be directly coordinated with the recommendations/approaches being provided by Working Group #4, "Strengthening the capacity of New PVOs and Already Established PVOs". Working Group #4 has highlighted the need for A.I.D. to provide funds to US PVOs to strengthen their capacity in a variety of areas from strategic planning, to technical/sectoral expertise to the development of sound management systems. This is especially important for small, newly emerging PVOs or well-established PVOs in need of strategic re-orientation or expansion into new geographic areas.
- A.I.D.-PVO policy recommendations may include specific funding arrangements to strengthen the capacity of emerging and established PVOs and their southern NGO partners. This is especially critical when A.I.D. and PVOs are re-examining their respective roles, and as PVOs are moving from direct service providers to facilitating local NGO capacity building.
- Assigning small grantmaking authority to US PVOs or establishing funds at the local level to which NGOs could have access, similar to A.I.D.-funded Small Project Assistance Program for Peace Corps volunteers or the Ambassador's Self Help Fund.

D. DOWNSIZING: THE SITUATION AND THE CHALLENGE

Given the timing of the work of the PVO Strategy Task Force, there was particular concern expressed about the current downsizing exercise and its effects on PVO operations and relationships with A.I.D. It was agreed that innovative mechanisms would be explored with particular attention to their applicability to the Agency's proposed downsizing and the potential for PVOs to operate with decreased A.I.D. oversight. There was agreement that this should involve new PVOs/NGOs in A.I.D.-funded programs, as well as, developing new capabilities for existing PVOs. The area of Democracy and Governance was raised as a specific area in which this will be necessary.

The A.I.D. Administrator has stated that A.I.D. will be phasing out of a number of countries. There are three criteria for selecting countries for phase-out: 1) host governments have not made good uses of A.I.D. resources; 2) the country is economically advanced and can graduate from normal A.I.D. relationships; and, 3) it has relatively lower priority for US foreign policy.

While it may no longer be suitable to have regular A.I.D. missions in these countries, in many cases there will continue to be a need to maintain some sort of assistance relationship. There is

agreement that mechanisms should be identified to continue A.I.D.'s investments/programs in countries where Missions are phased out or staff levels are significantly reduced. This represents a challenge for A.I.D. and the PVO community, as well as other institutions. The following discussion sets out several options by which A.I.D. can continue its programming. These include -- direct use of individual PVOs; USG funds used directly to support local NGOs; and foundations.

#### 1. DOWNSIZING- COLLABORATION WITH INDIVIDUAL US PVOs:

Grant programs for American PVOs are one vehicle for achieving A.I.D. objectives at costs that are significantly less than those inherent in maintaining Missions to support traditional direct project oversight and/or implementation. PVOs can carry out programs in all of the three types of countries listed above: poor performing countries; low priority countries; and middle income countries.

In order for PVOs to be effective in this new role, there must be a new paradigm of A.I.D.-PVO collaboration. To promote this paradigm, two key concepts should be recognized and accommodated: 1) PVOs are independent entities with proven track records in successful development/humanitarian activities; and, 2) strict accountability standards must be maintained.

It must be recognized that PVOs represent a heterogeneous group. Each PVO has its own goals and styles of operating. Given this heterogeneity, there is a need for A.I.D. to work with individual PVOs to reach mutually shared objectives. Particular attention must be given to joint strategic planning, by country and perhaps by sector.

Recognition of PVOs as independent entities translates into acknowledgment by A.I.D.-- and perhaps Congress -- that PVOs possess either a current or a potential capacity to plan and implement successful development activities. PVOs have or can have the capability to carry out assessments of development/humanitarian needs in host countries and implement successful responses to these needs through carefully defined, measurable project initiatives.

The necessity of accountability standards must translate into standardized procedures to assess: the scope of individual PVO capacities, the success of PVO programs to meet mutually agreed upon objectives, and, the soundness of PVO financial management systems.

Use of individual PVOs to continue A.I.D. programs seems particularly appropriate in countries where there is inadequate government economic and political performance, such as Liberia and Togo. At such time as these governments change or prospects for

country performance improve, A.I.D. could then consider whether or not to re-establish a presence.

**PVO MANAGEMENT:** One management approach would be to have a major U.S. PVO assume responsibility for managing projects which fit within its and the USG and A.I.D.'s priorities, e.g., population and democracy. In this case, the actual implementation would be through sub-grants to PVOs and NGOs. The major US PVO would receive a fee for administering the project, and ensuring financial accountability.

It would be important to establish the "rules of the game" for the nature and priorities of activities, as well as ways to avoid favoritism in selecting PVOs and NGOs to execute the programs. Since both management and administration would be by non-profits, the cost to A.I.D. would be minimal.

A second management approach would be to have A.I.D./W or a regional office act as the management organization, and to have both larger and smaller US PVOs and NGOs execute projects. However, it is important that they play a larger role in design of the projects than is currently the case in order that there is real ownership and management commitment.

#### PVOs- CONSTRAINTS:

**Project vs Strategy Development:** In the past, the comparative advantage of the PVOs has not been in research and analysis and strategy development at the national level. A.I.D. believes that research and analysis are necessary underpinnings for sound strategy and that a strategic framework is necessary for successful project interventions. Historically, PVOs have focussed on project-level interventions or sectoral approaches.

If PVOs are to provide increased, and more independent input into project level needs assessment, the need for analysis and strategic planning needs to be filled. In some cases, PVOs with this policy and strategic planning experience can provide this input.

**Policy Context:** Over the past several years, A.I.D. has been concerned about encouraging economic, political and social policies which encourage sustainable, market-based growth with equity. There is a widespread belief that sustainable development is not possible in the absence of the appropriate policies. This has meant that significant levels of A.I.D. resources have been allocated to support changes in government policies.

To the extent that some PVOs do not address the policy environment in which activities take place, PVO projects risk being less successful.

**Logistical Arrangements:** Historically, A.I.D. has assisted PVOs in establishing themselves in countries, including negotiating tax-

free privileges and the like. To the extent that some PVOs will continue to need this type of assistance, a solution will need to be found.

**Managerial Capability:** The current capacity among PVOs to establish and maintain strict accountability standards is uneven. This tends to be more of an issue with new, and smaller PVOs.

**Evaluation Capability:** The current capability among PVOs to undertake project and program evaluations and impact assessments is also uneven and again, the issue tends to be more acute among new and small PVOs.

**Established PVOs vs New PVOs:** As A.I.D. reduces its in-country presence there may be a tendency to look to PVOs experienced in both the country and the chosen sector to continue USG-funded programs. This would tend to discriminate against new PVOs as well as established PVOs going into new areas.

#### PVOs- PROPOSED SOLUTIONS

**Promoting PVO Independence:**

1) Articulate a policy for conducting joint strategic planning and needs assessments of host countries. The joint assessment would provide the opportunity for both the donor (A.I.D.) and a representative of the implementor community (PVOs) to pinpoint common understandings from the outset. Such understandings will lay the foundation for future collaboration.

The assessments would include a statement in which needs are prioritized based on discussions with host country government and non-profit sector representatives, and in light of the A.I.D.-PVO team members' own assessment. Identification will be provided as to areas of common agreement regarding the types of initiatives needed to address priority needs.

Where appropriate and where the capacity exists, PVOs can take on or continue the functions of policy dialogue and research and analysis.

Recommendations would also be made as to the type of grant programs to be implemented. These programs may include traditional financial mechanisms such as OPGs, umbrella grants, monetization, food distribution grants, as well as, less traditional mechanisms such as small discretionary funds for experimental activities, and block grants to address needs of host country and other countries in sub-region.

2) Establish criteria to determine which PVOs A.I.D. will collaborate with on joint assessments. Criteria could include a PVO's track record in the host country or another country in the

targeted geographical region, along with the professional experience of the PVO staff, must be measured. In order to encourage the use of new PVOs, criteria could also include measurements which did not weight direct experience but found other areas of needed strengths.

3) Undertake a joint PVO/A.I.D. effort to review and update Agency Policy Papers on strategies and relationships with PVOs and Coops. Note: ACDI expressed the view that it is particularly important for A.I.D. to undertake joint review with the Cooperative Development Organizations of the A.I.D. Policy Papers PD 73 dated April 28, 1980 and another dated April 1985 and promulgate a new policy reflecting current circumstances.

4) Once A.I.D.'s reorganization is understood, there should be joint meetings with A.I.D. and PVO/Cooperative community to explain the new structure. Special emphasis should be given to assisting PVOs that want to realign their field or regional structure in order to be most helpful to A.I.D. as it downsizes.

#### Maintaining Strict Accountability

5) Require pre-awards accountability surveys of PVOs that are to receive A.I.D. funding in countries with no USA.I.D. or a significantly reduced USA.I.D. staff.

6) Establish criteria for writing PVO management plans as part of project proposals, which include addressing issues that here-to-for have been under the scope of USA.I.D.'s oversight responsibilities.

7) Establish procedures for evaluating the programmatic success of grant implementation. This will include regular formal evaluations of project activities, as well as periodic site visits by A.I.D. representatives.

8) Establish transparent and objective criteria for determining when funding should be terminated if a PVO is not meeting anticipated performance standards or if the developmental of technical requirements change significantly. This will mean that grants may be terminated before the end of the delivery period stated in a grant document.

9) Publicize a summary of why and how OMB circular A-133 audit requirements ensure the safeguarding of public resources.

10) Enforce standardized application of OMB circular A-133 audit requirements. This will require agreement between the IG/W and officers of the regional inspector general on what standardized application entails. [NOTE: this area will require more work on the part of Working Group members.]

11) Now that PVOs and their auditors have had more experience with the A133, gather information on how effective it is. Obtain input

on any A.I.D. reporting or monitoring requirements put in place prior to the A133 which could be reduced or eliminated. Determine if it would be feasible to eliminate or reduce pre-existing A.I.D. reporting and monitoring requirements and/or if the A133 could be simplified or done less frequently.

## 2. DIRECT USG FUNDING FOR INDIGENOUS NGOS:

In small countries which have low foreign policy priorities, one of the easiest means of maintaining a relationship and encouraging the development of NGOs in the absence of an A.I.D. Mission and program is to use existing USG presence such as the Ambassador's self-help fund or the Peace Corps. A level of resources could be provided to the Embassy or the Peace Corps to support small, self-help activities by local NGOs or community groups. This approach would maintain a US relationship and support worth-while groups.

### FUNDING NGOS- CONSTRAINTS:

This approach may not address institutional strengthening and attacking key development problems. In addition, there is a lack of development training among State Department Foreign Service Officers.

### FUNDING NGOS- SOLUTIONS:

If funds are allocated by the Embassy, it would probably be necessary to train someone in the Embassy how to apply the criteria of a small projects fund and to pay the salary of a local contract employee to ensure that projects are selected and executed properly and, furthermore, that financial management capability and implementation ability is satisfactory.

## 3. FOUNDATIONS FOR A.I.D. Graduates

One of the most interesting situations is how to deal with A.I.D. graduates such as Brazil, Chile, and several countries in Asia. If sustained development and deepened trade and intellectual relationships with the United States are a high priority, new mechanisms must be explored. One possible drawback, from the A.I.D. standpoint, is that these are "non -A.I.D. solutions", i.e., the role of A.I.D. is minimal as the new organizations with their own funding take over functions formally exercised by A.I.D.

Option One: One approach would be to create national or bi-national foundations. This may be more applicable in advanced developing countries but may have more limited application in the RLDCs (Relatively Less Developed Countries). Such a foundation already exists in Portugal and a feasibility study has been done for Costa Rica.

Option Two: A second approach would be the creation of a foundation, based in the USA, for a selected geographic area. Several of these foundations exist, with varying degrees of

success: The Inter-American Foundation, the African Development Foundation, and, most recently, the Eurasia Foundation. All of these foundations are essentially independent of A.I.D.; and more study is needed to determine why, and under what conditions, such foundations succeed or fail.

Option Three: A third approach would be the creation of PVO development foundations. Such foundations would operate on a national, regional, or functional basis (such as an environmental foundation). They would help cement close working relationships between US PVOs and their counterparts in developing countries. They would ensure adequate accountability while avoiding excessive bureaucracy. They would achieve institutional development of NGOs in developing countries.

The foundations might function along the following lines:

- The foundation would be a "spin off" from a major US PVO with a proven track record in the geographic area or functional field. Alternatively, the foundation could be built on a broad-based association of PVOs, such as InterAction.
- The foundation would be the trustee of the funds it receives, and not an executor of projects. It would be ineligible to receive grants from the foundation. The foundation could also provide technical assistance to the NGO in such areas as strategic planning, budgeting, accounting, as well as monitor the success of grants made.
- Funds for the foundation could come from a number of sources, which include:
  - o Dollar endowment from A.I.D. appropriated funds. These would probably come in the form of various dollar tranches over a period of years;
  - o Proceeds from Debt-for-Development or Debt-for-Nature swaps. Perhaps the host country would agree to index these funds to allow for inflation or devaluation;
  - o Availability of PL 480 or other local currency funds. These would preferably be denoted in dollar equivalent and made available on an annual basis. Latin America has had extensive experience with this mechanism.
  - o The matching contribution of participating PVOs and NGOs. These will often be in-kind contributions.
- Note: it is feasible and perhaps desirable to provide either dollar or local currency endowments in tranches, as opposed to one-shot expenditures.

FOUNDATIONS- CONSTRAINTS:

1). Funding and the life of the foundation. Since most of these foundations will not have large endowments and their endowments will be subject to decapitalization, it would seem appropriate to limit the life of funding, i.e., encourage the foundations to expend capital as well as interest, to achieve maximum development results over a reasonable short time period. The really successful foundations may receive funding from other sources.

2) Politics and Favoritism. There will probably be strong pressures on A.I.D. to select certain PVOs to form the foundations. Perhaps a greater concern would be the politics of deciding which PVOs and NGOs would be the recipients of the grants. Maximum objectivity in awarding grants must be ensured. A competitive process for the awarding of endowment funding might be an appropriate approach to ensure a level playing field for all PVOs.

IV. INNOVATIVE FUNDING MECHANISMSA. ENDOWMENTS- THE SITUATION AND CHALLENGE:

Given A.I.D. staffing constraints and the overriding objective of A.I.D. programming to assist countries and institutions to become independent, self-reliant entities, endowments are seen by many as an increasing appropriate means of transferring A.I.D. resources. In recent years, A.I.D. has provided endowments, mostly in local currencies, to strengthen the financial base of existing organizations. These grants are most often given to local non-profit organizations which are closely linked with host country organizations.

POSITIVE ATTRIBUTES: The attractiveness of the endowment mechanism is that it provides a stable amount of resources upfront which allows the recipient to plan and take responsibility for its programming over a relatively long period of time. Essentially, A.I.D. makes endowments when it wishes to support an NGO or foundation and is willing to cede A.I.D.'s normal degree of control over the use and reporting of funds. The usual procedure is the Memorandum of Understanding (MOU) between A.I.D. and the host government which stipulates the following:

- terms and purposes of the endowment;
- how funds are to be managed;
- sources and amounts of funds;
- conditions on the transfer of funds;
- uses of endowment income;
- requirements for reports and audits; and,
- the conditions under which endowments can be canceled.

A.I.D. Management Relief: Another positive aspect of endowments are that it relieves A.I.D. from the burden of direct, hands on management and monitoring.

ENDOWMENTS- CONSTRAINTS:

General concerns raised in providing endowments to host country foundations or similar organizations are as follows:

- Institutional Displacement: Endowments involve a transfer of functions from the public sector to the private, non-profit sector. Though this may not be generally popular with host governments, it may be advantageous, given the financial and management limitations of many governments in developing countries;
- Organizational Performance: It is important to have a strong board of trustees, and competent staff. The U.S. government may or may not be represented on the board of trustees. Organizational capacity is a key requirement for success and will limit the number of potential institutions to receive endowments.
- Political Interference: There is real risk of host government interference, often by including its representatives on the board of trustees. This may lead to less than optimal management decisions and resource allocations.
- Devaluation and Decapitalization: Rapid inflation and negative interest rates can quickly erode the value of the endowment. Currency devaluation can also decrease the foreign exchange value of local currency endowments.
- Financial Accountability: Normally, this is dealt with by requiring annual audits by a reputable accounting firm. However, local and American concepts of conflict of interest often differ and can lead to serious difficulties.
- Degree and limits on A.I.D. Involvement: Degree of continuing A.I.D. involvement and eventual termination of all involvement are delicate issues for both parties.
- Absolute Size of Endowments: The amount of endowment required to yield a significant income can be quite substantial. For example, to provide an annual income of \$ 5 million to support programs requires an endowment of \$ 100,000,000 at a real (after inflation) interest rate of 5 percent.
- Up Front Costs to A.I.D.: Not only is a substantial sum needed, but for A.I.D. the significant costs are paid out over a short period of time, not spread out over several fiscal years.

ENDOWMENTS- SOLUTIONS:

Best Conditions: The "Terms of Endowment" concluded that endowments are likely to work best where "a stable political and economic order has allowed legal and institutional systems to

assume a level of independence and integrity necessary for supporting the increasingly complex social and economic interactions of a modernizing country."

Source of Local Currency: As a source of local currency for endowments, debt-for-development and nature swap transactions, non-profit organizations -- using either their own funds or A.I.D. funds-- can purchase discounted debt owned by a developing country which is converted into local currency.

Means of Maintaining Value: There are various alternatives for maintaining value, ranging from investment in shares or non-financial assets such as office buildings to investing in accounts denominated in hard currencies or obtaining government approval to convert all or part of the endowment into hard currencies. However, even if the endowments must be maintained in local currencies which are losing value, this alternative is preferable to having the local currency sitting idle in "sterilized accounts".

Where endowments in local currency are involved, A.I.D. and the recipient should acknowledge that the endowment will depreciate over time, and that it is preferable to utilize the endowment for development purposes over a short period of time than have a local currencies sit idle and eventually disappear through depreciation.

Alternatives to "Up-Front" Payments: One alternative to the one shot payment by A.I.D. is to provide endowments in tranches. This however, may undermine the idea of strengthening an organization to be independent. In addition, the USG is not always able to meet outyear commitments of funding thereby undercutting the concept of stable funding.

Alternatives to Host Country institutions: Where host countries do not qualify for endowment, or in order to permit programs in several countries, endowments can be provided to an existing US PVOs, or a foundation which could be established by a US PVO.

The PVO would then operate agreed-upon programs to agreed-upon countries. The principle advantage to both the foundation and A.I.D. would be the ability to develop and implement programs without direct A.i.D. involvement. The major obstacle would seem to be financial, i.e., the inability, as indicated above, for A.I.D. to provide large levels of endowments. It might be possible, in the case of larger U.S. PVOs, the PVO itself could provide a substantial amount of counterpart.

A.I.D. has recently produced and circulated for comments, draft guidelines for setting up dollar-funded endowments from appropriated funds. This guidance on dollar endowments is pursuant to a recent provision of the law (Section 567) which makes it possible for recipients to retain interest earned on such funds, whether in dollars or in local currency, without specific

Congressional approval. Members of the PVO community believe that the current draft guidelines which state that endowments must be invested in federally insured U.S. banks in the United States or abroad are too restrictive compared to investment practices of US foundations.

#### B. DEBT SWAPS THE SITUATION AND CHALLENGE

Also called debt conversion, debt swaps are the result of an initiative which A.I.D. began in 1988. It allows internationally-active PVOs, universities, cooperatives, agricultural research institutions, and other not-for-profit entities to use A.I.D. funds to purchase external debt or inconvertible currency of a third world country and redeem that debt at some premium in local currency.

POSITIVE ATTRIBUTES: The debt conversion mechanism has significant potential for providing additional resources for development. It also helps third world countries reduce their external debt and debt servicing burden. In some cases, debt can also be "converted" into desirable policy changes.

DEBT SWAP- CONSTRAINTS: Problems encountered in greater use of debt conversions to extend A.I.D.'s resources exist but should be relatively easy to overcome in the short run. These include:

- absolute resource constraints, i.e., a lack of adequate local currency.
- lack of knowledge about debt conversions among A.I.D. staff and on the part of a broad range of internationally-active PVOs, universities, cooperatives, agricultural research institutions, and other not-for-profit entities.
- A.I.D. guidelines, issued February 1989, and revised April 1990, which are conservative in defining types of A.I.D. resources that could be used and the procedures for implementation.
- lack of knowledge about lessons learned. The problems that have had to be overcome and the time that was required to overcome them has tended to overshadow the successes that have occurred.
- lack of clear support by Senior A.I.D. Officials.

#### DEBT SWAP- SOLUTIONS:

- A statement from a senior A.I.D. official in support of debt conversions would be helpful to a number of mission directors

and other A.I.D. officers who are not certain what the Agency's current policy is regarding debt conversions.

Create a sub-committee of Working Group 6 that would include representatives from the General Counsels Office, The Policy Directorate, Global Programs, Field Support & Research, relevant geographic bureaus, and contracts/procurement. This sub-committee would undertake several tasks:

- o review the April 1990, Debt-for-Development Initiative Guidelines for continued applicability to current conditions. Subjects for review include: whether the definition of AID resources available for conversions should be broadened; whether mission approval is necessary in all cases; whether gains achieved in doing a debt conversion can be classified as matching funds and recorded and managed as counterpart funds.
- o prepare and publish a list of the most frequently asked questions about doing debt conversions with appropriate answers.
- o consider ways of encouraging grantees or cooperators to do debt conversions or inconvertible currency transactions whenever legal and financially viable.

### C. JOINT [PARALLEL] FUNDING FROM NON-US INSTITUTIONS

SITUATION AND CHALLENGE: Joint funding from non-USG sources can help PVOs leverage A.I.D. funds by arranging with other donors to fund certain development activities. One area of increasing non-USG resources is global funds linked to global development problems, such of the Global Environmental Fund (GEF).

POSITIVE ATTRIBUTES: The basic appeal is that other resources can provide a larger pool of resources for PVO activities. In addition, resources from other sources allow for new ideas and cross-fertilization of experience. This concept has appeal to many PVOs, especially during this period of severe limitations on A.I.D.'s financial resources. A number of projects, especially large projects and/or projects that are implemented in more than one country, could benefit from receiving funding from A.I.D. and, perhaps, the World Bank or other donors.

Definition: Different A.I.D. officers speak about this concept using different terms: co-funding, joint funding and parallel funding. Joint funding is the generic description of funding projects or programs from different sources. Co-funding means more specifically that resources from different sources are mingled in support of one activity. A.I.D. has not generally supported this approach largely due to requirements for separate accounting for

each source and for concern about losing control of how A.I.D. resources are used. **Parallel funding**, is where each donor has a separate contract with a PVO for separate aspects of an activity. This allows A.I.D. to account for its resources separately and ensure control over their use. For these reasons, parallel funding is currently the preferred approach and is therefore probably the most feasible at this time.

JOINT [PARALLEL] FUNDING- CONSTRAINTS:

Problems with joint funding tend to be logistical and administrative and perhaps philosophical.

- Lack of agreement between A.I.D. and other donors on what activities and organizations merit combined funding;
- Differences in accounting standards and requirements;
- Duplication of reporting;
- Possible differences in procurement practices and regulations;
- Different disbursement periods, requirements, and regulations.

JOINT [PARALLEL] FUNDING- SOLUTIONS:

It would appear also that this is another case where there is a need for better dissemination of information about what is possible and how to prepare proposals for parallel funding.

One solution is for a PVO-A.I.D. working group to develop guidelines for PVOs and Cooperative Organizations on means of streamlining the accounting and reporting requirements for parallel funding and explore the feasibility of establishing a framework for doing joint funding. As A.I.D. tends to have the most rigorous accounting standards among donors, the A.I.D. standards could serve as a model to be used by co-financing entities.

In order to inform this effort in streamlining, more information is also needed on how other donors operate and differences in requirements.

Clearly, before PVOs enter into a joint funding arrangement, they should determine how the administrative costs -- including management time -- compare with the expected financial benefits. The PVO should also ensure that the sources of funding have generally complementary and comparable approaches.

The Canadians have developed an approach to joint funding which could serve as a useful model for A.I.D. The relationship between the Canadian assistance agency (CIDA) and the NGOs is one of partnership, rather than a donor/recipient arrangement. The NGO Division respects the independence and integrity of the NGO's and

seldom provides more than a part of the funds necessary for a project or program. Project/program planning, implementation and management, and liaison with developing countries are the responsibility of the NGO. These are not considered CIDA projects or programs; ownership, with the associated risks, remains with the NGO.

Specific characteristics of the Canadian approach to NGO's include:

- developing relations with the Canadian business community by encouraging business to increase investment in developing countries and develop their technological capacities;
- administering programs designed to respond to requests from non-profit organizations and institutions for support of their development activities.
- supporting collaborative relations between a wide range of non-profit organizations and institutions in Canada and the developing countries.
- providing explicit support to small, and new PVOs.

#### D. INCREASED INTERACTION WITH "FOR PROFIT" FIRMS

POSITIVE ATTRIBUTES: There was considerable interest expressed in the group in exploring increased interaction between non-profit and "for profit" organizations in order to expand the resource base available to PVOs, as well as to increase the sustainability of development activities in the field. Currently, information on what is possible and how to do it is not widely known in the non-profit community. [Note: The Group did not have time to develop this area of interest. Preliminary ideas are summarized below and additional information is included in the Appendix.]

There are several ways in which a non-profit organization can get involved in profitmaking ventures, either directly or by the establishment of other entities such as subsidiaries and partnerships. Each one has certain legal requirements to be closely followed to ensure that the organization's tax-exempt status is not affected. In short, for a non-profit to get involved in profitmaking activity adds an additional legal burden "for profit" firms do not face. This is a constraint A.I.D. should keep in mind as it ponders the extent to which it can expect PVOs to expand their financial and project horizons through non-profit activity.

#### "For profits"- CONSTRAINTS:

While the "for profit" option presents many attractive opportunities, it has definite limitations for the resolution of the principal problem of declining A.I.D. financial resources.

PVOs are largely inexperienced with "for profit" ventures, and cannot be expected to become instantly successful entrepreneurs. Expectations should not be set too high in this area, certainly not in the immediate future.

PVOs may find it difficult to identify "for profit" partners willing to go into business with them on joint-venture arrangements. Private investors and entrepreneurs may well find PVOs somewhat strange bedfellows to do business with. One question is whether PVOs can enter "for profit" undertakings and still retain their basic character.

" For profits"- OPTIONS:

The following is a list of ways in which PVOs can increase participation with "for profit" firms:

Option One: Engage directly in for-profit activity involving a trade or business in furtherance of the tax exempt purposes of the organization. No tax issue arises.

Option Two: Engage directly in a for-profit activity even though involving a trade or business unrelated to the tax-exempt purposes of the organization, and simply pay whatever taxes are due. This approach is only available where the activities, either alone or in conjunction with other such activities, are not deemed "substantial" in relation to the exempt activities of the organization. If the nonprofit organization engages in unrelated activities to the point that they would be considered "substantial" by the IRS, the organization's entire tax-exempt status could be in jeopardy.

Option Three: Establish a "for-profit" subsidiary, for example, either to avoid a question of unrelated business income or to generate earnings for the nonprofit sponsor. The "for-profit" subsidiary would typically, but not necessarily, be wholly owned, and would generally take the form of a corporation or possibly a partnership. Partnerships, however, face certain restrictions as indicated below. Although the "for-profit" subsidiary may be wholly owned, it may not be wholly controlled by the parent or its activities may be imputed to the parent, thus raising issues about the tax-exempt status of the parent.

Option Four: Form a partnership, i.e., a joint venture, with "for-profit" organizations or private investors. Originally the IRS took the position that involvement by a charitable organization in a partnership as general partner was the basis for automatic revocation of tax exemption, irrespective of the purpose of the partnership. Over the years, the IRS has relaxed their position although they still impose certain restrictions. To protect its tax-exempt status, the non-profit must only participate as a general partner in partnerships that a) serve its tax-exempt purpose; b) do not interfere with its ability to achieve its tax-

exempt purpose; and c) do not provide an undue economic benefit to its private, "for profit" partners. The issue can be avoided by only participating in partnership as a limited partner, which typically limits the partner's role to investor with no managerial involvement.

## V. INNOVATIVE PROGRAMMING MECHANISMS

### A) EXISTING MECHANISMS WHICH NEED REVISION

#### 1) UMBRELLA GRANTS

Over the past several years, A.I.D. has developed and implemented the concept of the Umbrella Grant. An umbrella grant is designed to provide one source of project funding for a number of grants. Missions may manage an Umbrella Grant directly or there may be an intermediary grantee to manage the sub-grants. The intermediary grantee can be a lead PVO, a consortium of PVOs, or a "for profit" contractor. The Umbrella Grant may be focused in one activity or sector or may provide resources in a variety of areas. The concept of the Umbrella Grant -- one funding source for multiple grants -- is gaining in popularity. Both A.I.D. and PVOs are considering whether or not this concept is an appropriate means of maintaining A.I.D. programs where there is reduced direct A.I.D. presence.

POSITIVE ATTRIBUTES: The advantages of this approach are that the sub-grants are wholly PVO/NGO designed and implemented. A.I.D. accepts proposals from PVOs rather than performing the designs in-house. In this way, PVOs can choose the location and activity. It allows for funding to indigenous NGOs which do not yet have the experience to function completely autonomously.

From an A.I.D. management point of view, it means the design and procurement are undertaken once, for a variety of sub-grants. It also allows the award of sub-grants which are smaller than the size which is optimal for A.I.D. to fund as separate projects.

A.I.D. also sees potential for Umbrella Grants to shift implementation and management and accounting responsibility from A.I.D. to an intermediary grantee. This may or may not be the case.

#### UMBRELLAS- CONSTRAINTS:

The problems encountered with Umbrella grants include the following:

- Field assessment indicates that in some cases, where there is a prime grantee responsible for awarding sub-grants, there has been resentment expressed by some sub-grantees that they do not have direct access to A.I.D. and the larger resources which are available to lead US PVOs; recent evidence indicates that grantees are often happier working directly

with Mission staff or PSCs (Personal Services Contractors) hired to manage Umbrella Projects than with lead PVOs.

- Where there are prime grantees, some management responsibility is shifted to these grantees. For PVOs which prefer receiving grants and working on development activities, the role of manager and monitor of resource transfers to others may not be rewarding.
- In situations where A.I.D. has specific, limited strategic objectives, umbrella projects must accept proposals only within those development sectors. This can lead to resentment from PVO/NGOs with project plans that fall outside A.I.D.'s selected sectors.

#### UMBRELLAS- SOLUTIONS:

Given the positive experience with many PVO Umbrella grants, A.I.D. and PVOs should continue to explore the potential for expanded use of this approach.

However, the following criteria should be observed in each case:

- local NGOs are represented in the design and interested and supportive of the activities;
- there is demonstrated interest and support on the part of the beneficiaries;
- background analyses and technical aspects of the design are sound;
- where there is a prime grantee, this grantee meets established managerial capacity criteria;
- technically sound monitoring and evaluation systems have been incorporated into project design and implementation.

## **2) MATCHING GRANTS**

CURRENT SITUATION: In general, A.I.D. grants require that no more than 75 percent of total project costs be funded from USG sources. The other 25 percent may be made up of cash or in-kind contributions. A special class of grants, generally called matching grants may require a greater level of private participation. For example, A.I.D./FHA/PVC operates a program called the Matching Grant Program which requires a dollar-for-dollar match for USG funds provided to the projects. There are also programs of matching grants similar to the PVC program which are operated at the Mission level. The discussion in this section pertains both the PVC program and the similar Mission programs.

The one-to-one match has the advantage of limiting the number of proposals from which A.I.D. must select and, by the same token "separating the men from the boys"- only those PVOs with

substantial outside sources of income can make the one-to-one cash commitment.

MATCHING GRANTS- CONSTRAINTS:

In "good times" when fund raising is easy this may work out well, but over the past few years it has been extremely hard for PVOs without name recognition and proceeds from mass mailings to meet the match. In a few cases, the need to dip into reserves has seriously impaired the financial survivability of PVOs.

MATCHING GRANTS- SOLUTIONS:

- One possibility is to decrease the matching requirement, or place it on a sliding scale, according to the PVO's income. [Note: definition of income to be determined.] PVOs would be grouped in four to five income levels from small to large. To be equitable, a percentage of matching grant funds could be reserved in each defined income group. In all likelihood, the larger PVOs will end up with the larger projects, but at least the smaller ones would be assured of receiving resources and can gain experience.
- A second solution is to count non-monetary contributions as part of the match. It shouldn't be too difficult to arrive at the criteria of what types of contributions should be allowed. The field missions should have ample experience.
- The dollar requirement could be eliminated, entirely. However, this would probably open the field too much, and A.I.D. would be more open to accusations of favoritism in the selection process. The PVO financial contribution is a real way of saying that they care about the project. It also allows the PVOs some independence from A.I.D.

**3) COOPERATIVE AGREEMENTS:**

CURRENT SITUATION: From the standpoint of the PVO, a Cooperative Agreement stands somewhere between a grant and a contract. It is not as flexible as a grant and not as restrictive as a contract. In practice, A.I.D. has tended to "ride close herd" in implementation of Cooperative Agreements, requiring written approval at all stages of implementation, i.e., applying a restrictive interpretation of "substantive involvement".

BACKGROUND:

Handbook 13 states that the OMB policy on substantial involvement is "Agencies should limit Federal involvement in assisted activities to the minimum consistent with program requirements" (Section 6D2). It further states "Each cooperative agreement will include an explicit statement of the nature, character, and extent of anticipated A.I.D. involvement in the program/project supported by the Cooperative Agreement." (Section 6G3).

The Regional Legal Officer in Central America, for example, in a memorandum to A.I.D. officers stated, "Keep in mind that the Mission is not required to approve grant sub-agreements. Such approval frequently involves the Mission to an unnecessary and undesirable degree in minor implementation details and in the relationship between the grantee and sub-grantee."

COOP AGREEMENTS- SOLUTIONS:

- 1) Re-confirmation, as a matter of A.I.D./W policy, of the above statements. If A.I.D. enters into a Cooperative Agreement, the assumption should be that the PVO is competent to implement the project with a minimum of A.I.D. direct involvement and formal approvals. A.I.D. always has recourse to informal monitoring and formal audits, etc.
- 2) Use of caution and restraint in drafting Cooperative Agreements. The question should be "Is control really necessary?" To the extent possible, the Cooperative Agreement should call for "consultation", "discussion", "mutual agreement", etc. to be arrived at through informal, rather than formal, written approvals.
- 3) Implementation letters should not be unilaterally issued by A.I.D. They should be discussed with the implementing PVO and not become operative until both sides have signed the implementation letter.
- 4) Experience in today's working relationship with US A.I.D. indicates that if PVOs/CDOs are to be of greater assistance to A.I.D. in the future, the following steps must be taken:
  - Clarify that U.S. A.I.D. staff should consider engaging a PVO/CDO to carry out a task -- either on a non-competitive basis, or, if reaching out to more than one PVO/CDO to get offer, then by the use of a request for applications (RFA).

Although present regulations and guidelines clearly authorize this approach, many in A.I.D. are neither familiar with this approach nor are they familiar with the organizations which could be engaged and their capability to successfully complete the tasks. Often, A.I.D. staff consider using more traditional, more lengthy time requiring competitive approaches only because it is considered safer and less likely to run a risk or attracting protest or audit.

  - Clarify the intended use of legal documents engaging the services of a PVO/CDO including:
    - o Review of Operational Program Grants (OPGs, including Co-financing of "umbrella grants") as key mechanisms under which we carry out people to people type development and relief programs;

- o Review and update guidelines on use of "Cooperative Agreements" (Primarily Chapter 6 of Handbook 13) to clarify the following:
  1. Cooperative Agreements are particularly beneficial for many development efforts in foreign assistance which require a "rolling design" effort in order to be implemented on a timely basis and achieve a successful result. This approach is partially spelled out in Handbook 13, Chapter 6 (6B 2b) where it describes the appropriateness of Cooperative Agreements when "review and approval of one stage before work can begin on a subsequent stage during the period of the agreement."
  2. Due to the PVO/CDO's predominant thrust of "people to people" humanitarian and developmental efforts the Cooperative Agreement and the "rolling design/implementation" inherent in such programs make it uniquely suited to be used in "collaborative mode" development efforts. Its application in such efforts should be further researched, explored and appropriate guidelines developed (see annex A as starting point).
  3. Update Policy Memoranda and Memoranda on working relations for:
    - a. U.S. A.I.D. and CDOs such as those dated January 11, 1980 and sent to Missions April 28, 1980.
    - b. Similar Policy and guidelines for PVOs.

Many changes in A.I.D., PVOs, and CDOs have transpired since these were closely reviewed and a formal group made up of U.S. A.I.D. and CDO/PVO representatives should rewrite these documents to be more appropriate in today's world.

## B. NEW APPROACHES TO BE IMPLEMENTED

### 1) ROLLING DESIGN

The concept of a rolling design is that a project or program is defined in the near term with inputs, outputs, purpose and objectives. However, medium and longer term outputs remain flexible and to be determined at a later date. The design is revised by the experiences and lessons learned as the project progresses without the requirement for formal re-authorization of the project.

POSITIVE ATTRIBUTES: The attractiveness of the rolling design is that it can adjust to the realities in the field and as a result, be more successful. It allows flexibility to emphasize parts of the project that work, and terminate or redesign the parts that do not. In addition, when this concept is applied to A.I.D.-funded PVO projects, it allows A.I.D. and PVOs to reach a consensus on the framework for activities and then allows the PVOs more autonomy in implementation.

ROLLING DESIGN- CONSTRAINTS:

There are several issues which need to be overcome if the concept of rolling designs is to be accepted and implemented effectively.

- lack of experience on the part of many PVOs with direct responsibility for management and financial accountability;
- lack of experience on the part of many PVOs with self-assessment and impact evaluation;
- lack of mutual trust and respect between PVOs and A.I.D.
- resistance by the A.I.D. procurement office to moving terms of reference and flexible End of Project Status (EOPS) accomplishments.
- resistance by A.I.D. project managers to substantive rather than management/accounting oversight;
- lack of precise measurements to determine when and if additional tranches of grant funds should be provided.

ROLLING DESIGN- SOLUTIONS:

One possible solution to some of these issues is to adapt the Design and Performance (DAP)/Design and Deliver (DAD) models for PVO use, to allow PVOs to take part in design and implementation of projects. In this way, PVOs and A.I.D. could reach consensus on the design, the implementation framework, the level and frequency of assessment and reporting.

It is also quite likely that Co-operative Agreements -- if implemented as originally intended -- would be a good vehicle for supporting the rolling design concept.

Again, as stated in other sections, training for PVOs in financial management and evaluation/assessment would strengthen their ability to implement project with rolling designs.

**2) INNOVATION FUND/BUY-INS**

THE SITUATION AND THE CHALLENGE: At present, programmed assistance is not achieving maximum developmental impact for several reasons, which include:

- 1) long lead times from concept to project (over two years);

- 2) tendencies to eliminate smaller projects in favor of larger due to the overhead of the process of approval, solicitation, procurement, monitoring and evaluation;
- 3) tendencies to increase the complexity of the projects by adding multiple objectives;
- 4) tendencies to be more interested in design and strategic planning than implementation;
- 5) pressures to build projects with unrealistic expectations. Because budgets are short-term and projects must compete for resources, projects are designed to make big changes in short time periods.

These attributes result in development approaches which -

- discourage creativity and innovation in the field;
- are inflexible and unable to react to development opportunities as they arise in a rapidly changing environment;
- have difficulty solving small problems; and
- do not make full use of the local experience or indigenous knowledge.

POSITIVE ATTRIBUTES: The increased availability of discretionary funds for innovative grant programs, as well as for buy-ins to existing grants and contracts could help to alleviate many of these problems. These funds could be used to support a whole range of small, timely, better-focussed projects. If these projects are well-designed they would have the major benefit of empowering and mobilizing local resources in the development process.

More flexibility in responding to field needs. Using discretionary funds, project design can respond more directly to the expressed needs of beneficiaries as opposed to Congressional earmarks or to headquarters political pressures.

Less overhead/transaction cost in the approval process. This could lead to smaller projects which focus on discrete activities of small groups of beneficiaries. A.I.D. staff time at missions can be minimized through program structure and scheduling.

BUY-INS:

Buy-ins offer missions flexibility in development programming. Buy-in provisions can be added to any contract or grant. Thus, a contract or grant may define a project that is worldwide or regional in scope. Such projects have developmental goals and objectives, core resources (both administrative and technical), and a capacity to develop a body of knowledge concerning a particular class of developmental issues. Thus, a mission with discretionary funds could procure high-quality development assistance in a simple and flexible manner by providing funds to an existing project with a proven track record. As the overhead is low, smaller initiatives need not be ignored.

Buy-ins are also attractive to missions because they cut down on time required for procurement as firms accessed through the buy-in process have already met pre-competition standards.

INNOVATIVE GRANT PROGRAMS:

Intended beneficiaries and development professionals assisting them are closest to the scene of development activity. Consequently, they often have unique insight into development opportunities and creative solutions to development problems. One way to unlock that activity is through an innovative grant program. Typically, a fixed amount of money is set aside and an open season for competition is announced. Program guidelines state the goal and objectives of the program to which project proposals are expected to conform. Other guidelines may set maximum and minimum cost limits, term limitation, or other important administrative parameters. Proposals are then competitively ranked and awards are made subject to the overall funding limitation.

INNOVATION/BUY-INS- CONSTRAINTS:

- The principle constraint limiting the use of the flexible disbursement mechanisms discussed in this paper is the scarcity of discretionary funds. These mechanisms are not particularly burdensome administratively, though staff time is required for drawing up guidelines and evaluating proposals, if a mission chooses to administer an innovative grant program itself.
- There is also the "inertia factor". Programs have "always" been made up substantially of projects that have passed through PID (Project Identification) and PP (Project Paper) stages and double Congressional Notification.
- Another constraint in using buy-ins from a mission point of view is the tendency for consultants hired under a buy-in mechanism to use a standardized "cookie cutter" approach to development problems rather than developing a customized design from the ground up for each country situation.

INNOVATION/BUY-INS- SOLUTIONS:

- The task force might recommend that a portion of development assistance be reserved as discretionary funds;
- Alternatively, a new class of projects might be defined. These might be called "tactical development projects". Such projects would have stated goals and objectives and a defined funding level, but would make funds available for buy-ins and innovative grant programs. These projects would go through the normal project approval process, but once funded would be a source of flexible development finance.

### 3) IMPROVED LINKAGE BETWEEN DEVELOPMENT AND RELIEF

#### THE SITUATION AND THE CHALLENGE:

There is currently a significant lack of linkage between development and relief activities in the Agency, as well as in PVO project portfolios. This leads to unsuccessful interventions at both ends of the continuum.

**Needed Mechanism:** Planning, funding and implementation mechanisms which enable A.I.D. and PVOs to "operationalize" the relief-development continuum: the ability to link short-term emergency relief interventions to longer-term rehabilitation and recovery activities, thereby ensuring an integrated approach to assistance planning and the most effective use of resources.

#### BACKGROUND:

In many parts of the developing world, emergencies first addressed as short-term have evolved to complex, long-term humanitarian assistance programs, often created or exacerbated by civil strife.

Long-term humanitarian assistance programs, including those which appear headed toward recovery from disaster, fall into a gray area between immediate emergency relief and longer term reconstruction and recovery activities. Current policies and procedures within A.I.D. do not directly address this gray area.

Numerous assistance planners agree that relief efforts have an impact on long-term development. Such efforts can either support and promote development or undermine it. Given the ways in which relief assistance are usually planned and delivered, opportunities to promote development are often missed. Similarly, development efforts have impacts on disaster proneness and development planners often fail to recognize the relationship of their plans to long-term disaster vulnerability.

Relief organizations often operate as if they have no responsibility for the long-term impacts of their actions and development agencies seldom consider the impacts of their efforts on long-term vulnerability.

A few PVOs have designed and proposed integrated assistance projects, particularly for those countries moving from immediate relief into rehabilitation and recovery activities. With few exceptions, A.I.D. has been bureaucratically unable to respond to these proposals.

#### LINKAGE- CONSTRAINTS:

- Institutional: A.I.D. and many PVOs are institutionally structured in ways that reinforce the division between relief and development activities.
- Legislation/Funding: Differing legislation and accompanying appropriations reinforce the division between relief and

development and do not allow it to be directly and constructively addressed.

- Skills/Training: Different skills and training have been developed and encouraged for relief and development. Expertise in identifying the linkages between the two is not often recognized and/or encouraged.

#### LINKAGE- SOLUTIONS:

- Require that the linkage be addressed in development and relief proposals submitted to A.I.D.
- Require joint program planning by relevant Bureaus/Offices within A.I.D. for any country receiving or expecting to receive both relief and development assistance in a given year. Several countries receive dual assistance year after year, yet planners do not work together to ensure that they are working toward a common goal. In some instances, development and relief activities in a single country may work at cross-purposes.
- Convene and continue an A.I.D./PVO Working Group to address this issue, paying particular attention to the constraints noted above and providing specific recommendations for mechanisms which will enable A.I.D. and implementing partners to "operationalize" the relief-development continuum.
- Expose people in both fields of activity (relief and development) to evidence that the connection is real; provide examples of straight-forward activities which have been done/can be done to reinforce the continuum.
- Increase opportunities for training and professional discussion across spheres.

#### **4) PVO PARTICIPATION IN COUNTRY STRATEGY DEVELOPMENT**

The subject of PVO participation in A.I.D. country strategy development is partially covered elsewhere in this document (particularly Section III, D1, "A.I.D. Downsizing and the Use of Individual PVOs). Working Group #6 emphasizes, however, that PVOs should be included in this process whether or not there will be an A.I.D. field presence in a given country. The need for this participation emerged as a critical factor underlying many, if not all, of the proposed innovative mechanisms.

Time constraints precluded a full discussion of this topic, but the Working Group recommends the issue be pursued as part of the ongoing collaborative process initiated by the PVO Task Force Working Groups.

The following solutions, which are not mutually exclusive, are offered as a starting point for continuing discussions between A.I.D. and the PVO community concerning PVO participation in country strategy development:

SOLUTIONS

1. Articulate a policy for conducting joint PVO-A.I.D. needs assessments of host countries. (See Section III. D1 for more details.)
2. Give PVOs the opportunity to prepare the initial draft of the PVO component for A.I.D. Country Program Strategic Plans (CPSP).
3. Allow PVO comment periods on draft CPSPs. PVO comments should not necessarily be limited to the specific role that PVOs might play in implementing country activities, but rather would reflect PVO input to the strategy as a whole.
4. Provide training to PVOs in the concepts/formats/skills used to prepare country strategy statements.

## VI. APPENDIX

### A. Relevant Documents

Overview of U.S. Voluntary Agencies' Activities, page 5, (A.I.D./FHA/PVC).

"Stretching A.I.D.'s Scarce Resources through Debt Conversions and Local Currency Endowments". (Debt for Development).

"Debt Conversions with A.I.D. Resources: Clarifying the Rules" (Debt for Development).

"The Relief-Development Continuum", (InterAction).

"IDA NGO Financing Needs Study: Status and Issues", (Fox)

"A.I.D.-U.S. Cooperative Relationships", (A.I.D. Memorandum)

### B. BACKGROUND NOTES

#### 1) RISK TAKING- BACKGROUND:

Private business recognizes the need for risk taking and attempts to develop systems for the measurement and accountability of risk taking. Risk taking is done for a variety of reasons: to secure a strong niche or competitive position, to maintain or enhance a market leadership position, to deepen penetration in existing markets or to expand into new markets, to develop new products, to increase profitability, or simply to survive as a viable entity. Entities need to analyze why they are willing to undertake risk and how much risk is advisable at any given time.

In a commercial banking environment, risk taking can take many forms. A loan officer may, for example, be given no independent authority; a potential consumer borrower fills out a form that is then scored in a predetermined fashion. If the score is over some number, the loan is granted; under that number, the loan is rejected. Other loan officers are expected to have some loans that are not paid. The number of "failures" is determined by market segment.

Normally, commercial banks have specialized units that deal with problem loans. The skills needed to restructure a loan, collect through taking possession of collateral, etc. are often different from the skills needed in making loans.

In some cases, loan officers are told that a certain percentage of problem loans will be accepted **but** that such officers are expected also, perhaps, to achieve a higher than average return on their overall portfolio or increase the banks penetration of a particular

market by some percentage amount. The point is that problem loans are expected and there is an understanding of the acceptable limits of "failure" as well as the benefits expected from taking higher risk.

Management must recognize the trade-offs involved. This includes the recognition that it is virtually impossible for an institution in a competitive market to ask for and obtain above average profitability, increased market share and no problem loans. Morale suffers when an employee is asked to perform the impossible. Selling off at some profit likely problem loans to other institutions is not a viable long-term strategy.

## 2). ENCOURAGING NEW PVOs AND NEW FUNCTIONS OF EXISTING PVOs

CASE STUDY (A.I.D. focus on new geographic areas and functions):

- o Where A.I.D. is engaging in new geographic areas, such as the NIS and Eastern Europe, new and established PVOs are playing more of a role as facilitator of local NGO capacity rather than direct service providers. The funding mechanism being used by the NIS office is that of the lead institution with subgrant arrangements, in which a lead PVO or for-profit institution takes the responsibility on behalf of A.I.D. for management, review, solicitation, and issuing subgrants to U.S. PVOs linked to a local NGO partner. The technical projects focus exclusively on building the capacity of local NGOs in their area of expertise with a focus on environment, health, economic, restructuring, and democratic pluralism. Likewise, the Europe Bureau has centered on matching grants, child survival grants, and umbrella grant mechanisms for U.S./PVOs and NGOs working in Eastern Europe. Unsolicited grants have also been awarded.
- o A.I.D. funding for democratic initiatives and pluralism (a new program focus) in the NIS and Eastern Europe have been conducted mostly through U.S. NGOs, the National Endowment for Democracy, National Democratic Institute, National Republican Institute, American Bar Association, trade unions, etc. U.S. PVOs have been involved in democratic initiative activities in a more limited sense, mostly through a lead institution/subgrant mechanism.

## 3). DEBT SWAPS- BACKGROUND:

A growing number of developing country governments with severe debt problems are now willing to implement debt conversion programs. Rather than resisting the implementation of a debt conversion program on the grounds that debt conversion are inflationary, governments try to tailor their programs so as to reduce or eliminate the inflationary impact that debt conversions could entail. In addition, the World Bank is encouraging governments

that undertake debt buy backs financed with resources of the International Development Association (IDA) to have a debt-for-development option.

The U.S. Congress has been quite supportive of debt for development. This support is perhaps most evident in legislation that overcame one of the biggest obstacles to debt-for-development transactions: Congress specifically allows interest earned on the proceeds of debt-for-development conversions financed with federal funds to be kept by the recipient and used for program expenditures rather than requiring that the interest be returned to the U.S. Treasury. Congress also expressly permitted debt-for-development to be used in creating endowments.

Many industrialized nations now permit their bilateral claims to be used in debt conversions. The current Administration has been exploring permitting this option. Some U.S. bilateral debt could be used to create an endowment-type mechanism that would provide longer-term financing in general or be used to finance U.S. presence in countries where direct A.I.D. presence is to be reduced or phased out completely.

Issue Group 6 spent considerable time with officers of the Policy Directorate, the Directorate of Finance and Management and officers in geographic bureaus to obtain and understand data on A.I.D. obligations by country and gain some insight into the portion of A.I.D. funds under grant or cooperative agreements that is converted into local currency. While more work needs to be done in this area, especially in allocating obligations of central bureaus and regional offices, the data in Appendix I -- based on conservative estimates that net gains in the coming year will be less than those available today -- at the end of this report suggest that A.I.D. resources provided to not-for-profit entities could be expanded by nearly \$40 million in fiscal year 1994 through debt conversions in about twenty countries. Of course, this does not cover other benefits from doing debt swaps: debt reduction for governments, some debt management training, increased social investment, the incentive for innovation thinking provided to not-for-profit entities, the fact that many PVOs that learn of this mechanism also leverage non-A.I.D. funds, etc.

#### 4). INCREASED PARTICIPATION WITH "FOR PROFIT FIRMS

##### CONCEPT:

In an environment in which public funding for development activities is scarce, private voluntary organizations (PVOs) may increasingly consider undertaking for-profit development projects because such projects are potentially sustainable without yearly infusions of funds. PVOs may also consider working with for-profit companies that are undertaking development projects, even though the for-profit companies' motivation for undertaking a project is its potential profitability rather than its developmental impact.

In addition, PVOs may attempt to become financially self-sufficient by charging fees for services rendered.

CONSTRAINTS:

Unclear legal definition:

Unfortunately, the law is not very well defined concerning the extent to which U.S. PVOs that benefit from tax exemption under Section 501(c)(3) of the Internal Revenue Code can undertake projects which are of a potentially profit-making nature, assist private companies in implementing for-profit projects in developing countries or earn fees.

In order to be exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code, an organization must be both organized and operated exclusively for one or several exempt purposes. Exempt purposes are charitable<sup>1</sup>, religious, educational, scientific, literary, testing for public safety, fostering professional and amateur sports competition or preventing cruelty to children and animals.

In determining whether an organization is exempt, the purpose for engaging in an activity, rather than the nature of such activity is the determining factor. Consequently, an organization may meet the requirements of Section 501(c)(3), despite its operation of a trade or business, if the operation of such trade or business is in furtherance of the organization's exempt purpose and the organization is not organized for the purpose of carrying on an unrelated trade or business.

If an exempt organization engages in activities normally carried out on a commercial basis, such as, for example, the management of real estate or the providing of investment advisory services, it must also show how it differs from a commercial organization. It can show this by demonstrating, for instance, that the services it provides further an exempt purpose, that its fees are below cost, that it provides services irrespective of ability to pay, that the services it provides do not benefit private interests. As not-for-profit organizations potentially have a competitive advantage (they can charge lower fees because they are tax-exempt and often receive grants), the I.R.S. is careful to prevent not-for-profit organizations from competing with commercial organizations.

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<sup>1</sup> An organization organized for charitable purposes must be operated for purposes that are beneficial to the public interest. Such purposes include relief of the poor, the distressed, or the underprivileged, erection or maintenance of public buildings, monuments etc., lessening the burdens of government, lessening of neighborhood tensions, elimination of prejudice and discrimination, defense of human and civil rights secured by law, and combatting community deterioration and juvenile delinquency.

If an organization with 501(c)(3) status engages in more than insubstantial activities that do not further an exempt purpose, it may have to declare any income from such activities as "unrelated business income" and pay taxes on such income.

If the activities that are not in furtherance of an exempt purpose become the organization's main focus, it is likely to lose its 501(c)(3) status.

#### SOLUTIONS

By analyzing the following factors prior to engaging in a "trade or business", i.e. in an activity that is potentially profit-making, and keeping a written record of the reasons which led the PVO to engage in the activity, the PVO will minimize any potential problems with the IRS:

- Does the project further an exempt purpose? If the project's only effect and purpose is to allow the PVO or a private company to make a profit, it will be difficult to justify the PVO's involvement.
- Does the involvement of the PVO further an exempt purpose and/or is the PVO's involvement related to its exempt purpose (the activities performed by the PVO could, for instance, focus on an exempt aspect of a project that overall serves a non-exempt purpose)?
- Could the services being performed by the PVO be performed by a commercial entity? To what extent is the PVO competing with commercial entities? Are the fees charged by the PVO, if any, below cost in the interest of furthering an exempt purpose or are they below cost for competitive reasons?
- What percentage of the PVO's aggregate activities do not serve an exempt purpose? If the PVO's activities which do not further an exempt purpose represent more than an insubstantial part of its overall activities, they are likely to be unacceptable.
- Is it possible for the PVO to perform its services for another PVO involved in the project or for a government entity rather than for a private sector company?