

A REVIEW OF THE RELATIONSHIPS
BETWEEN THE PATHFINDER FUND AND THE
AGENCY FOR INTERNATIONAL DEVELOPMENT

LEADER GRANT NO. AID/csd 1870

By the
Operations Appraisal Staff
of the
Office of the Auditor General

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I. Summary of Findings and Recommendations

Findings

1. In broad terms, the Pathfinder Fund is generally accomplishing objectives of Grant AID/csd 1870. While the Pathfinder organization merits the confidence of A.I.D. for continued support, we believe it must intensify its efforts and achieve a better programming and management competence, fully commensurate with its increased size and global involvement.
2. The Agency's grant agreement with the Pathfinder Fund is overly complex. The grant document with its thirteen amendments is cumbersome, internally inconsistent, and difficult to administer from the A.I.D. and Pathfinder viewpoints. It is more like a contractual arrangement than a true grant.
3. Approximately 80 percent of the Pathfinder Fund's finances are received from A.I.D. Although both Pathfinder and A.I.D. would prefer a more evenly balanced funding ratio, the current ratio has not been, as a practical matter, a disadvantage to the achievement of mutual objectives.

Recommendations for AA/PIA Action:

1. That the A.I.D./Pathfinder Fund relationship be recast into a true grantor/grantee arrangement in line with the recent A.I.D. policy trends on grants vs. contracts.
2. That the Agency's grant, and its numerous amendments be renegotiated as a single cohesive document which would better express in clear concise terms the understandings between the parties.
3. That PIA/POP work out with the Pathfinder Fund arrangements for Pathfinder's establishment of target dates for the full operational application of subproject design practices, good evaluation policies and procedures, and improved cost effectiveness measurement practices.
4. That A.I.D. maintain continuing emphasis with Pathfinder to see that the rate of improvement in management and operational matters continues at a pace that justifies continuing large A.I.D. inputs.
5. That PIA/POP arrange to have the Pathfinder Fund prepare appropriate country strategies for multiple project countries and apply them on a consistent basis. These strategies shall conform to basic A.I.D. guidelines to assure that they are not inconsistent with A.I.D. program and geographic emphasis.

- c. That under the new arrangements, the Direct Program Support budget item be eliminated and that the sub-items included therein be funded under Administrative Costs.

II. Introduction and Scope

An Action Memorandum (May 4, 1972), prepared by PPC, by which the Deputy Administrator approved a \$3 million grant to the Pathfinder Fund included the following "conditions":

"The project is approved in the amount of \$3.0 million through December 31, 1972, with the understanding that

(a) The planned evaluation of Pathfinder's effectiveness and progress in achieving the objectives stated in AID grants will be completed by October 31, 1972.

(b) The Auditor General's Operations Appraisal Staff will conduct a review of the management and program relationships of AID and the Pathfinder Fund with the review completed by October 31, 1972."

The "Discussion" section of the Action Memorandum stated in part:

"...The PROP describes the project as a grant. However, it lists by title all of the activities which are to be supported with AID funds and further provides that each activity will be reviewed and approved by AID prior to implementation (see page 8, sections 7e and f and page 9, section 8c). The above provisions are in many respects identical to that found in contract-type relationships..."

It continued:

"...We believe that the management and program relationships between AID and an intermediary are necessarily different in those cases (1) where we are supplying general program support to the intermediary to continue or expand activities which contribute to AID's overall objectives and (2) where we provide funding to an intermediary to carry out specified AID activities as determined by AID. The former we believe are most appropriately funded through a grant mechanism while the latter are most effectively executed through a contract. This project utilizes the grant mechanism to accomplish these two distinct types of objectives..."

This review of program and management relationships between A.I.D. and the grantee was made pursuant to the above-referenced direction from the Deputy Administrator. It covered all pertinent A.I.D. and Pathfinder Fund documents, interviews with concerned personnel at A.I.D./W and in-depth interviews with Pathfinder Fund executives in Boston, Massachusetts.

A three-man professional team review, as contracted for by the Fund, was being conducted concurrently with the AG/OAS review. As of the date this report is being written, the Fund's special review team has not submitted its report. However, the AG/OAS team has had the benefit of the Fund's team's tentative findings and conclusions, and these have been considered in writing this report.

This review of A.I.D./Pathfinder relationships was a broad appraisal. Its main emphasis was on suitability of the use of this organization and the effectiveness of the arrangements in terms of accomplishment of A.I.D.'s program objectives. We did not audit the agreements in a traditional sense as cost audits have been handled under other arrangements--see Sections X and XI below.

III. A Short History of the Pathfinder Fund and A.I.D.'s Involvement in the Fund

The Pathfinder Fund is a private charitable United States organization, incorporated in 1957, to continue the work of Dr. Clarence C. Gumble in stimulating the introduction of family planning practices world wide. From 1958 to 1966 the average annual disbursement of the Pathfinder Fund was \$155,300. During this period the Gumble family was practically the sole contributor. In 1966, the Pathfinder Fund's Board of Directors decided to expand the Pathfinder program and efforts were made to raise funds from sources other than Dr. Gumble's family.

A.I.D.'s initial involvement was a contract (csd 1573, June 1967) to establish a Family Planning Evaluation Center for the analysis of data on interuterine device (IUD) insertions in LDCs. The Center and the data analysis activity have been successfully launched and are no longer A.I.D. funded. The current extension of the contract is confined to the Pathfinder Fund's acting as a channel for funding research and development of a reversible vasectomy device by a doctor at the New York Medical College. Present plans call for this contract to be terminated in June 1973.

On January 13, 1968, a three-year technical assistance world-wide grant (AID/csd 1870) was made by A.I.D. to the Pathfinder Fund for \$200,000 to augment the Pathfinder Fund resources

for making subgrants to initiate family planning services in LDCs. This grant is still active, having received several increments: \$4 million was added to the grant in 1972. The cumulative total is \$9.7 million. From 1968 to 1972, there were also grants from A.I.D.'s Regional Bureaus. The last regional grant was discontinued during 1972 and all activities are now funded from the worldwide grant (AID/csd 1870).

Pathfinder's income from its non-A.I.D. sources has increased since 1968 to \$750,000 in 1971. Pathfinder FY 1972 income from non-A.I.D. sources was precisely \$606,586. However, about \$500,000 of this was a special disbursement from the estate of Dr. Clarence Bumble, and does not truly represent the tapping of new sources of income. A.I.D. grants to the Pathfinder Fund, however, have increased to a far greater order of magnitude.

<u>Fiscal year</u>	<u>csd 1870</u>	<u>Regional</u>	<u>Total</u>
1968	\$ 700,000	\$ 600,000	\$1,300,000
1969	2,500,000	570,000	3,070,000
1970	-	-	-
1971	2,495,000	571,500	3,066,500
1972	<u>4,000,000</u>	<u>350,000*</u>	<u>4,350,000</u>
TOTALS	<u>\$9,695,000</u>	<u>\$2,091,500</u>	<u>\$11,786,500</u>

IV. The Pathfinder Fund Organization and Its Activities

In 1967, before its first agreement with A.I.D., the Pathfinder Fund had 11 headquarters personnel, excluding the Board of Directors, and 4 personnel in its field staff. With funding availabilities and activities increasing on a geometric ratio, and with the problems of controlling an extended overseas pipeline, both the Boston and the overseas staffs grew. As of August 31, 1972, personnel had increased to 30 in the headquarters staff and 30 in the field staff.

Fiscal Year 1971 was a watershed year for the Pathfinder Fund during which it undertook a major review of its objectives, plans, programs, organization and management. It found that the development and sophistication of Pathfinder Fund's programming and management systems had not kept pace with the growth in its financial resources and number of subprojects and that the Pathfinder Fund's management of its activities had deteriorated.

* A portion of this was deobligated when the NESEA grant was terminated.

The Fund then initiated a continuing program of overall management improvement. It reorganized its structure, established a system of policy and procedures issuances, installed an appropriate accounting and auditing system, and increased the size and upgraded the quality of its staff.

The Fund also drew up a set of subproject selection criteria which it believes are consistent with its objective "to find, demonstrate and promote new and efficient paths which lead to lower rates of population growth." These are:

- "1. Introduction and demonstration of family planning services to population without such services.
- "2. Introduction of new or improved techniques for the delivery of family planning services.
- "3. Introduction of new or improved techniques for influencing those attitudes and values of people which determine family size.
- "4. Introduction of those fertility control drugs, devices and techniques which offer improved protection against unwanted pregnancies.
- "5. Field testing of new and improved techniques for the delivery of family planning services.
- "6. Field testing of techniques of influencing those attitudes and values of people which determine family size.
- "7. Field testing those laboratory proven fertility control drugs, devices and techniques which appear to offer improved protection against unwanted pregnancies.
- "8. Conduct of specific projects in the field of population planning requested by substantial contributors provided the conduct of such projects does not interfere with work in progress in the above listed areas."

The number of subgrants funded by the Pathfinder Fund average 26 per year preceding Fiscal Year 1968. Since this period, the number of subgrants has rapidly increased. During FY 1972, Pathfinder Fund provided funds to 169 new subgrants (A.I.D.-funded: 114) of which 8 (A.I.D.-funded) were for bulk procurement.

As of August 31, 1972, the number of active subgrants was 109 (A.I.D.-funded: 71) of which 16 (A.I.D.-funded: 13) are for bulk procurement of commodities. These subgrants range in dollar costs from \$986 to \$497,200. Those subgrants in excess of \$100,000 each constitute 40.5 percent of the total dollar commitment and 4.6 percent of the total number of projects. \$2,739,312 of A.I.D. funds and \$518,536 of unrestricted private funds have been committed to the 109 subgrants.

A review of the active subprojects shows, for example--

- 19 subprojects in Indonesia, most in support of Muhammadiyah, the social welfare organization of the Muslims in Indonesia, with purposes ranging from support for the only Muslim General Hospital in Djakarta which previously had no family planning services to the recording of a song on family planning for the purpose of relaying the message of family planning to the Indonesian public, to travel to international workshops on population education.
- 9 projects in the Philippine Islands including such things as:
 - Family planning programs for leprosaria
 - Family planning in Muslim areas excluded from the Government of Philippines program
 - Family planning program for prison inmates and families allowed visitation rights
 - Family planning through urban industrial missions and rural improvement clubs
- 5 projects in Colombia including a \$60,000 mass media project, a pilot clinic, a vasectomy program, and a mobile field workers' project, all in support of PROFAMILIA.
- Single or twin projects, mostly in African countries, aimed at paving the way, e.g.,
 - Senegal: Providing support, for the fifth year, of the operations of the Clinique La Croix Bleue in Dakar, the most active family planning clinic in West Africa, and an increasing number of satellite clinics, looking toward the establishment of a family planning policy by the Government of Senegal and the assumption of support by other organizations than the Pathfinder Fund.

- Ethiopia: Graduate studies, offered by the Population Division of the Graduate School of Public Health of the University of Pittsburg for the Head of the Maternal and Child Health Division of the Ministry of Health. The purpose is to bring expertise to the higher levels of Ethiopian medical administration in the development and coordination of Maternal and Child Health/Family Planning services.
- Zululand, South Africa: Travel to the U.S. for technical and practical training in family planning to permit two women to offer family planning services in their clinical practice in the hospitals in Zululand which service rural tribal areas.
- Zaire: Introduce and establish family planning services in the Ubangi area of Northwest Zaire, through support of a mobile maternal and child health clinic and the work of the Paul Carlson Hospital.

7. Grant or Contract

A proposed Policy Determination, which had been "reviewed and commented on in the Administrator's Advisory Council meeting of August 16, 1972" is in the penultimate stages of approval as this was written. It states:

"Self-restraint in the imposition of program and management control by A.I.D. officials is an essential feature of grant activities. If there is to be any significant degree of operational control over a group's program, use of a grant is inappropriate. Particular care should be taken to avoid the imposition of requirements for approval and for reports and/or restrictions that are inconsistent with reasonable program and management flexibility for the grantee."

The requirements of csd 1870 are broad and generalized but are not in conformance with the above definitions, which we understand to be the evolving A.I.D. policy.

In order to meet the requirements of csd 1870, Pathfinder has adopted the following procedure for approving new subgrants: a subgrant may be conceived by an LDC private organization, originated by Pathfinder personnel, or by A.I.D., but, in each case, the LDC organization which will implement the project must initiate the formal application. The Pathfinder Fund's Program Operations Director for the relevant region, with the guidance of the relevant scientific staff officer, then prepares a project precis. The precis is then considered by the members

of a Program Review Committee, composed of all nonsecretarial and nonclerical staff members of Pathfinder headquarters.

If the proposal is found tentatively acceptable, based on this preliminary review, it is rewritten in greater length in the form of a Project Description and presented again at a subsequent meeting of the Program Review Committee. If approved, the Project Description is submitted to PHA/POP by the Executive Director of the Pathfinder Fund. If PHA/POP finds the subproject proposal acceptable, the Project Manager obtains clearance, through the Regional Bureau, from the necessary USAID or Embassy (if there is no A.I.D. Mission in the country).

Clearance procedures within A.I.D./W for a Pathfinder Fund proposed subproject are the same for a small request of a \$100 vasectomy kit as for a \$300,000 project for family planning centers in Venezuela. The A.I.D./W clearance procedure for the nineteenth of the subprojects in Indonesia was the same as for the first trail blazing, family planning subproject in an African country.

The A.I.D. Mission, the Embassy, or PHA/POP may reject or propose modifications to the project. During FY 1972 there have been a total of three cases of rejection and one case of major modification. The latter is Venezuela--Nationwide Family Planning Centers PIN 1211, which A.I.D. had asked the Pathfinder Fund to underwrite. The three rejections were--

- Zambia: A subproject to send a Zambian doctor to an international conference on family planning was turned down by A.I.D. on the grounds that the Zambian Government would view with disfavor any U.S. Government support of family planning in Zambia at that time. The Pathfinder Fund then used its funds derived from sources other than OSD 1870 to underwrite the Zambian doctor's attendance at the conference.
- Zaire: A subproject to provide assistance in the initiation of family planning services by several missionary doctors was submitted by the USAID to the Government of Zaire for official approval. The responsible GOZ official rejected the proposal.
- Colombia: A subproject proposed by PROFAMILIA for a market analysis on the commercial distribution of contraceptives was rejected by A.I.D. because of an unresolved disagreement on which organization should perform the analysis.

The annual program submitted by Pathfinder, although detailed in nature, is tentative as to exact amount and does not have detailed

budgets for subgrants. Pathfinder states that under normal conditions no project will continue for more than three years, but they are flexible. The Director of Operations identifies three current subprojects which have received support for more than three years. However, even within the three-year framework a significant number of subprojects are renewals.

For these subprojects, as the Pathfinder Fund improves its evaluation process, PHA/POP will have adequate evaluation information without going forward to the USAIDs or Embassies for clearance each year. For new projects in new countries with new host country personnel, USAIDs and Embassies may well have valuable and useful information available to Pathfinder which should be brought to bear. Overall, however, it would seem that it should be possible to drastically reduce the number of A.I.D./W clearances.

We have gone into the process of internal clearances in some detail to show that the Fund has developed into a relatively sophisticated institution. While we have made two recommendations for further improvement of Pathfinder's processes (internal operational and strategy improvement), we believe it is time to let them graduate. We believe a new grant agreement on a true grantee basis would be mutually advantageous. We suggest it provide general criteria and thus produce PHA/POP clearance of project detail. If AA/PHA feels it cannot go this far, the contract technique (Pathfinder generally considers this unacceptable) should be used, but even here a more businesslike, orderly agreement is needed--see Section VI below.

Recommendation: That the A.I.D./Pathfinder Fund relationship be recast into a true grantor/grantee arrangement in line with the recent A.I.D. policy trends on grants vs. contracts.

VI. The Grant Document

Grant Number AID/csd 1870, which was signed on January 19, 1968, continues in effect to this day, having been amended fourteen times over the years. A fourteenth amendment is currently in draft. This number of amendments, some of which are quite extensive, covering most Articles of the Grant and introductory language preceding the Articles, is cumbersome. The Amendments add Articles, delete Articles, and alter and re-alter passages and even whole Articles.

¹ Lebanon - Female Sterilization Clinic; Senegal - Clinique La Croix Bleue and Satellites; and Philippines - Dansalan College Extension Service. The Project Manager in PHA/POP states that he very carefully considered these three subprojects when they were proposed and determined that their continued support beyond three years was justified.

The Grant is more like a detailed, precise contract. Even so, it contains many inconsistencies. For example, Article VII - Reports, was changed by Amendment 10 so that an interim report is now due on March 31, and an annual report is due September 30. However, the covering letter to Amendment 2 which contains detailed and essential guidance on reporting and other matters still calls for the same reports by their former dates of August 31 and March 31, respectively.

Another example: Article XVII, Administration of Sub-Grants, added by Amendment 1, states that within six months of effective date of the Amendment, A.I.D. and the Pathfinder Fund "shall endeavor to agree upon mutually acceptable practices and procedures to be followed by the Grantee in making subgrants hereunder and in insuring prudent administration of such subgrants. Such agreement shall cover, but not be limited to" a proposal to be submitted within 90 days by the Pathfinder Fund for "(1) the criteria for the selection of subgrantees, (2) provisions for end-use checks of subgrants (including audits and field checks where practical), and (3) means of assuring that such subgrants do not duplicate other subgrants made by other private organizations receiving funds from A.I.D...."

Subsequently, a year later on June 16, 1969, through the co-signing of the covering letter of Amendment 2, A.I.D., and the Pathfinder Fund agreed on a number of practices and procedures. However, the three specific subjects cited above were not covered. We could find no evidence that Pathfinder Fund had submitted a proposal as required. In fact, Pathfinder Fund officials stated, that they had never done so. Furthermore, we could find no evidence that A.I.D. had ever raised the matter within the six-month time limit or subsequently.

It would not be difficult to expand this listing of inconsistencies, ambiguities, and contradictions in the current grant document. The original grant and amendments take a total of 62 mimeographed pages, and one needs a map to follow the changes. Pathfinder has recognized this and has three times submitted a codified version of the Grant Agreement to A.I.D.--once in 1970 and twice in 1971, but A.I.D. has never responded. It is obvious that a new grant document must be written.

Recommendation: That the Agency's grant, and its numerous amendments be renegotiated as a single cohesive document which would better express in clear concise terms the understandings between the parties.

III. Validity of the Grant Mechanism Where A.I.D. Contributes the Major Share

Section V recommends that Pathfinder be treated as a grantee and not a contractor; it does not discuss whether the grant technique requires a minimum level of financing of the grantee's program from its private sector resources. Grants are intended to assist non-governmental organizations to accomplish objectives which are parallel to U.S. Government objectives. A critical question, therefore, is whether the Pathfinder Fund can have independent objectives when approximately 80 percent of Pathfinder's resources are received from A.I.D.

The PPC Action Memorandum (May 4, 1972) specifically raises the issue to which Section V was addressed, i.e., is A.I.D. "supplying general program support to the intermediary to continue or expand activities which contribute to A.I.D.'s overall objectives." As it was noted in Section V, the current situation is mixed, but it is recommended that this be clarified and that the grant mechanism be utilized.

PPC also notes with seeming approval that A.I.D. and Pathfinder have informally agreed "the ideal situation would be one where the funding ratio would be Pathfinder 50% - AID 50%" for projects which both are interested in undertaking. The memorandum also suggested 100% A.I.D. funding for subprojects "initiated" by A.I.D. The grant type partnership permits a dialogue in which both parties present suggestions, and there are no current Pathfinder subprojects which the Fund feels were undertaken solely because A.I.D. requested it, i.e., there are no 100 percent A.I.D.-interest subprojects in this context. The Venezuela subproject for 40 Family Planning Centers at \$315,855, and the Taiwan Orals and Condoms subproject at \$497,200, are special cases. They were both urged on Pathfinder by A.I.D. However, Pathfinder would have undertaken them and used its non-A.I.D. funds even without special A.I.D. intervention, but on a smaller scale at a lower funding level. The Venezuela subproject would have been for a much lesser number of Centers and a lower budget and the Taiwan contraceptive supply subproject would have been decreased because it would have consumed too much of Pathfinder's limited amount of non-A.I.D. funds. Thus the order of magnitude of these two subprojects is a matter of A.I.D. interest entirely.

A.I.D. has never established a firm policy on what is the desirable maximum for its contribution in terms of a percentage of total grantee resources. In the case of the International Planned Parenthood Federation, A.I.D. contributes 40 percent. This level represents what both parties feel is the maximum any one nation should contribute to this multi-nation activity if

the Federation is to be equally responsive to all members. In the case of the International Executive Service Corps, A.I.D. is contributing 55 percent.

There is no magic in the 50/50 ratio. Pathfinder has increased its resources gained from non-A.I.D. sources, but for the moment it has reached a plateau. To apply the 50/50 ratio would in all probability mean the discontinuing of the type of programs now carried on in multi-project countries, e.g., Indonesia, Philippines, Colombia. The result would be a complete change in Pathfinder's profile. The major questions to be faced are: does A.I.D. want to encourage the non-governmental sector; and, is the Pathfinder Fund the logical vehicle to do so. If the answer to both questions is "yes," then the funding ratio issue is relevant but not of major importance. A.I.D. is, and should continue, to urge Pathfinder to increase its private resources; but the size of our contribution should be dependent on our assessment of Pathfinder's ability to carry out our mutual objectives.

III. Need for Better Project Preparation and Evaluation

In broad terms the Pathfinder Fund is generally accomplishing the objectives of Grant AID/csd 1370. While the Pathfinder organization merits the confidence of A.I.D. for continued support, we believe it must intensify its efforts and achieve a better programming and management competence fully commensurate with the size and complexity of its operations. It should continue to improve its project design and evaluation policies, procedures and techniques and further train its personnel to those ends.

Pathfinder currently has procedures which set standards for project preparation and evaluation. However, the operating leadership of the Pathfinder Fund (the Executive Director and the Director of Operations) acknowledge that the standards set by the guidance are not achieved in practice. This is particularly true on two points. Firstly, Project Descriptions are not always written so that goals are stated in finite, measurable terms. This flaws some of the guidance that the subgrantee often needs. But more importantly, the absence of such precision interferes with useful evaluation. An example of this is a project entitled Bangladesh-Demonstration Post Partum Family Planning Program now pending BHA/POP approval. The Project Description gives its goals, as follows:

"VI. Goals of the Project

1. To develop a successful demonstration post partum family planning program in Bangladesh.

2. To determine whether the post partum approach, which includes ante- and post-natal motivation and counselling, is an efficient and effective way to obtain acceptors in Bangladesh.
3. To develop a body of experience, expertise and trained personnel which can be used to plan and implement a large scale post partum family planning program.
4. To determine whether and how existing health personnel who come in contact with pregnant and recently delivered women, as well as their husbands, can effectively refer these men and women to clinics for contraception and sterilization."

The first goal particularly lends itself to statement in quantitative terms but does not do so. What are the measurable ingredients of a "successful" post partum family planning program? In what time frame might they be expected to be achieved? These questions are not answered in the statement of goals.

Secondly, evaluations are inadequate. As the Fund Director of Operations emphatically stated, they are too "subjective." Considerable improvement is needed in their content, coverage, and format. No standard format is used. Project evaluation is found in reports, memorandums, and letters from subgrantees, field staff, and headquarters staff. There is no systematic approach.

Pathfinder's stated policy requires that reports "shall provide data adequate to evaluate the cost effectiveness of the project methodology." Reports from clinic subprojects generally contain comprehensive budget and expenditure information and information on the number of acceptors, follow-up visits by acceptors, and additional measurable units of achievements. In the field only PROFAMILIA in Colombia is developing cost benefit ratios based on this material. The Pathfinder Fund itself has done little to correlate and analyze this data to produce cost benefit measurements. This, not only prevents cost effectiveness evaluation but also means that the Fund is not in a position to inform the local government or other potential donor how much maintenance of the subproject will cost when the host government assumes the funding after the Pathfinder Fund withdraws.

The Pathfinder Fund is keenly aware of its shortcomings in subproject design and subproject evaluation and intends remedial action but, without professional help, these efforts are unlikely to be successful. A.I.D. has done considerable work on project evaluation and should be able to make a valuable contribution to Pathfinder.

Recommendation: That PHA/POP work out with the Pathfinder Fund arrangements for Pathfinder's establishment of target dates for the full operational application of subproject design practices, good evaluation policies and procedures, and improved cost effectiveness measurement practices.

Recommendation: That A.I.D. maintain continuing emphasis with Pathfinder to see that the rate of improvement in management and operational matters continues at a pace that justifies continuing large A.I.D. inputs.

III. Need for Country Strategies

Pathfinder considers all projects as equal and has no specific strategies for individual countries. Excluding bulk procurements and regional projects, four countries have 39 projects (Indonesia 19, Philippines 9, India 6, Colombia 5) while 24 other less developed countries have a total of only 40 projects. Discussions with Pathfinder Fund executives reveal that there is an evolving strategic vision which exercises some limited discipline in the promotion or selection of subprojects, but that this strategy has not been worked out, country by country, has not stabilized enough to be committed to paper, and is only partially understood by the field staff and the members of the Program Review Committee. Furthermore, the Pathfinder Fund has had no discussions with PHA/POP on country strategies.

Recommendation: That PHA/POP arrange to have the Pathfinder Fund prepare appropriate country strategies for multiple project countries and apply them on a consistent basis. These strategies shall conform to basic A.I.D. guidelines to assure that they are not inconsistent with A.I.D. program and geographic emphasis.

X. Administrative Costs

The Agreement stipulates that salaries, travel, and other related costs for such home office and field staff dealing directly with the subgrantees are charged to Direct Program Support and specifies the positions. Other administrative costs are covered by an overhead allowance based on the ratio of Fund activities for A.I.D. to total activities. This dichotomy does not make sense. Those personnel who are entirely funded under Direct Program Support are not devoting all their time to A.I.D.-funded subprojects. They also are involved in subprojects supported by unrestricted funds (i.e., Pathfinder Fund monies from non-A.I.D. sources). Thus, A.I.D. is paying for work which it had not intended to. In addition, there is an extra burden of work for the Pathfinder Fund and for A.I.D. in the requirement that items covered under Direct Program Support must be prepared, submitted, and approved as subproject proposals. 11 A.I.D.

desires to reduce overhead costs, this can be accomplished by reducing the percentage allowed, but A.I.D. should not be specifying positions in the Boston office. The current system also has the disadvantage of making the persons in the positions insecure and increasing the difficulty of recruitment.

Recommendation: That under the new arrangements, the Direct Program Support budget item be eliminated and that the sub-items included therein be funded under Administrative Costs.

XI. Internal Control and Audits

In our review, we did not examine in depth the internal control and audit system of the Pathfinder Fund. However, we studied reports and procedures and talked with relevant personnel in A.I.D. as well as Pathfinder's home office to be assured that a satisfactory check is kept on Pathfinder's financial transactions. The Pathfinder Fund's accounting system, prior to the establishment of the grant, was completely inadequate to meet minimal acceptable financial management standards. Under A.I.D.'s insistence and with considerable excellent professional advice and guidance from AG/AUD personnel, the Pathfinder Fund installed an eminently satisfactory system of accounts and internal control and audit system. The system includes an annual audit of the home office by Price Waterhouse and Co., and similar audits of all field activities and subprojects by local Price Waterhouse affiliates. In addition, the Pathfinder Fund employs, on a full time basis, an accountant who is responsible for internal audits, checking each voucher of the home office. This accountant also visits annually each area office and country office around the world and performs an internal audit. We believe that Pathfinder's internal control and audit system is well in hand, and that no benefit would derive from our further review of it.