

10 AUG 1982

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, FVA

FROM: FVA/PVC, Thomas A. McKay

Thomas McKay

SUMMARY

Private Agencies Collaborating Together (PACT) has requested a new grant for a total of \$16,500,000 in AID funding over three years beginning September 1, 1982. PACT would match this with \$14,625,000 in non-AID funds, including \$450,000 from direct private sources with the remainder in non-AID cash contributions to the activities they support. We recommend a grant of \$12,500,000 and a match target of \$10,470,000. The proposed grant would permit PACT to expand its general program and redirect its investment toward increased activity in Africa and Asia. It would place increased emphasis on evaluation and assessment and support to indigenous private development agencies.

Based on our regular monitoring and on a thorough and objective outside evaluation which examined "how the PACT consortium operates, what it accomplishes with what degree of efficiency and effect," our basic conclusion is that PACT has served well the purposes of our earlier support, to enhance the quality and increase the quantity of PVO technical and financial assistance programs to the Third World, and has been a responsible steward of AID resources. The evaluation found that PACT has identified and funded a number of outstanding projects and a good portfolio of projects in general and that the PACT process of tough-minded, intensive and independent review does make a difference, improving the design and performance of its projects. We are, therefore, recommending continued support to PACT through a new grant with some restrictions imposed by current policy considerations and as a result of the evolution of AID's relationship with many of PACT's member agencies and the PVO community in general. We recommend that the grant:

- require continuation of PACT's practice of securing a matching contribution for the projects it funds and encourage increased contributions;
- limit use of grant funds to AID countries (the Matching Grant listing) except for cases where AID grants a specific exemption;
- require PACT to secure prior PVC approval before granting funds to members who receive MG, OPG or Co-financing support in a given country and sector;
- reinforce PACT's stated intention to invest more in IPVO projects and development, in Africa and Asia, in evaluation/assessment, and in increased private fund

raising, through reporting and explicit coverage of these topics during Annual Reviews.

PACT wishes to operate much as it has in the past, without prior AID approval of its grants. Because of their demonstrated capacity to manage funds responsibly this should continue wherever possible. However, due to increasing movement of AID Missions into smaller, more flexible project relationships with PVOs, both U.S. and local, and Regional Bureau perceptions of PACT's potential duplication of these initiatives, some restrictions should be placed on specific country situations to assure that PACT's role remains unique vis-a-vis start-up, riskier projects where funding requirements are modest and rapid response is important.

PACT's existing grant was increased above the original LOP authorization of \$10.4 million to \$10.8 million and extended until 8/31/82 with no new project starts permitted during the extension period funding. This allowed for consideration of the new grant with the Evaluation Report in hand. We recommend funding PACT at a lower level than they proposed (their estimate of optimal capacity without restructuring) to take into account the effect of the restrictions mentioned above and the mortgaging effect on PVC's portfolio. We do support PACT's growth, however, and recommend a new grant of \$12,500,000 over three years beginning 9/01/82.

Funding PACT below the level they requested does not represent lack of confidence or recognition of the unique role PACT has played and will continue to play in the future. We expect PVC's own funding levels to remain constant over the next few years - the same period covered by PACT's new grant. We are, however, proposing a 15% increase in life of project costs compared to their last grant, but believe that a higher level would limit PVC's options to respond to new initiatives from other members of the PVO community. The period of constraint and increasingly difficult choices reaches its critical point in FY 84 and outyears. In the event that PVC's funding level increases rather than being held constant, PACT may be considered, along with other PVO's, for additional support.

As brought out below under "Issues", PACT insures in every case that its contributions to project support and other activities are matched by non-AID funds, and furnishes specific reports on such funding by project. These funds would amount to \$10.47 million under the proposed grant. PACT's Board is also moving to diversify its funding base in order to secure increased direct contributions to its program. We are satisfied that the organization is thus taking appropriate steps to utilize other non-AID resources in conjunction with Agency funds in its support to PVO activities.

BACKGROUND

Founded by eight private agencies who were convinced that a coordinated approach to development efforts would increase their capabilities and maximize their effectiveness, PACT now has twenty members, including three Latin American and two African agencies. One of the Latin American agencies and the two African agencies are themselves consortia, bringing the number of agencies linked to PACT to 88.

PACT was incorporated in 1971 and initial financing secured in 1972. AID has been the primary funding source for PACT. However, AID funds are complemented by non-AID contributions to PACT's grant activities and almost attain a match overall (58% AID/42% non-AID). A total of \$17,130,000 of AID funding has been provided for project grants, supportive activities, and administrative costs through three multi-year grants. A brief history of the AID/PACT relationship is included as Attachment A of this Action Memorandum.

PACT is both a consortium of member PVOs and a funder of PVO projects and activities. Decisions on the budget, funding, guidelines and processes, and services to PVOs are taken by a Board of Directors of whom a majority are member agency representatives. Recognizing both the benefits and the potential conflicts of interest in this form of organization, the Board established certain structures and procedures to maintain the integrity of the funding process, primarily the Project Selection Committee, a group of persons with development experience who are not associated with any member agency. The Committee, elected by the Board of Directors, makes all decisions regarding the allocation of funds to projects.

PACT's major activity is to provide Project Fund grants to PVOs for field-level development projects, mainly in agriculture, small enterprise development, training and non-formal education, coop development, community development, health and nutrition and low-cost housing. It requires an approximate match of non-AID cash contributions to the projects it funds as well as in-kind contributions. Two smaller funds have been established to supplement the Project Fund: the Supportive Activities Fund, which provides small grants (and requires a 1/1 cash match) for activities designed to increase the capabilities of agencies, and the Consortia Grant Program, which provides funds to consortia in developing countries to deliver services to their members. Supportive Activities represent a small portion of PACT's portfolio (7% of AID inputs) but a valued service to PACT members and grantees and a means to support collaboration, institutional development and information exchange in technical and program matters. Consortia grants are less restrictive in terms of non-AID inputs and are designed to develop institutional capacity.

While grant-making activities, including evaluation and assessment, account for the largest allocation of financial resources and staff time, PACT also plays another important role. It provides services to member and non-member PVOs and serves as a real forum for PVOs involved in the implementation of field-level projects. This last function is very important in enabling professional exchange of experience and improving the quality of programming.

PACT's process and management of AID resources have been reviewed periodically through outside evaluations (ATAC 1975, RRNA 1982) and regular monitoring and contacts. The Auditor General conducted an audit survey in 1980 but determined that a comprehensive review of PACT was not required, largely due to their impressive selectivity in project funding. They have managed an increasing level of activity and prudently modified their systems to reflect changes in development thinking. The recent evaluation also reflects this but suggests certain procedural and review changes which could retain their independent and thorough project selection process while reducing certain conflictive elements and condensing procedural steps. PACT's proposal takes into account the evaluation, our increasing emphasis on evaluation, assessment and lesson-learning from experience, as well as organizational response to membership and other issues they intend to address in the future.

EXPECTED RESULTS FROM THE GRANT

Sectoral Focus:

We may continue to expect PACT to fund a good portfolio of projects as they have in the past in sectors of continuing interest to AID (agriculture, small enterprise development, training and non-formal education, coop and community development, health, nutrition, low-cost housing, etc.) which strengthen the capabilities of local development agencies. If we endorse PACT's willingness to take risks in the early funding of untested (usually local) PVOs and development approaches, as we should, we must be prepared to accept a lower "success" rate in the projects they fund. Their current portfolio as rated by the evaluation was 26% excellent, 56% satisfactory and 16% unsatisfactory.

Number of Projects; Geographic Focus; IPVO Support:

The grant will finance fewer projects than the proposal targets (90 new projects, 125 refundings) due to our reduction of funding over the three years. The project fund will support about 60 new projects and 110 refundings of these and projects initiated under past grants. PACT will be funding proportionately less in Latin America compared to Africa and Asia. Their current portfolio has allocated 50% to Latin America and the Caribbean, 32% to Africa and 18% to Asia, with

African projects increasing significantly in the latter years. PACT is open to funding projects in the Near East, particularly to strengthen indigenous PVOs, but lacks the network to communicate the demand for these to their attention. It will continue present trends in support to IPVOs (from '73-'79, 40% of grant funds went to IPVOs, from 81-'82, 60% - not counting grants to U.S. PVOs which involved local PVOs).

Supportive Activities; Consortia Grants:

Supportive activities grants are expected to reach 100 and likewise reflect increased attention to IPVOs. The average PACT input is \$3,500 and most are completed within a year. Consortia grants will be increased by 15 (from 25) for institutional development grants and are under \$10,000 per year. On a very selective basis, 6 larger grants (under \$100 k, average grant, \$50 k) will be made to reinforce consortia which show promise of institutional growth and development. These figures are illustrative and represent decreases due to our reduction of PACT's proposed level of \$16,500,000 to \$12,500,000. Several PACT studies have underlined the utility of consortia grants provided that they clearly benefit the consortium's IPVO membership, they have an organizational validity and not just represent a host country's management or control of PVOs and that experience and support be shared with other outside donors.

PACT's own experience as a consortium, its linkages with other consortia in donor nations (Canada, Northern Europe) and the Third World, give PACT substantial experience and comparative advantage in supporting and developing IPVO consortia or associations in the LDCs.

Communications with AID:

We should expect and will require better communication with USAIDs and thus avoid the (relatively few) problems (Togo, Ecuador, Bhutan) which have arisen in the past as a result of this. By requiring AID approval before funding grants to organizations which have Matching Grant, OPG or Co-financing activities in specific countries and sectors, we may anticipate PACT maintaining and reinforcing its role in small projects' venture financing in sectors within AID's priorities. This should reduce Mission and Regional Bureaus' concerns that PACT funding is duplicative, especially where Mission bilateral programs effectively work with PVOs.

Evaluation and Assessment:

We believe that PACT is very well placed and constituted as a membership agency to work with PVOs in the development of evaluation and assessment capacity. They were much struck by the Tendler report and intend to examine collaboratively with their membership the issues raised therein, and other topics of

importance to the PVO community and AID. While endorsing their plans to increase investment in evaluation/assessment (of, e.g. small business development - beneficiaries, participation and community spread effects; process-oriented participatory projects; women in development; appropriate technology - lessons learned; and low-cost housing in the development process) we will review, on an annual basis their studies program to assure that it is complementary to other AID investments in this field.

Role within the PVO Community:

Through PACT, AID has an important vehicle for communicating with and supporting a large community of PVOs, both U.S. and local, which have active and diverse programs of field operations. It is this experience, analyzed through case and sector studies agreed to by the membership, which very productively stimulates discussion and change in development practices by the PVOs. While as an institution PACT is predominantly AID funded, it has a legitimacy and responsiveness vis-a-vis its membership and grantees that should be protected and preserved, with AID influence exercised only when necessary. It is the membership after all that agreed to a PACT process of intensive and sometimes conflictive review of funding requests. Despite centrifugal forces, the consortium has held together and does enhance collaboration among PVOs.

PACT'S PROPOSAL

We have analyzed PACT's budget proposal compared against its current grant and our proposed level of funding. Tables are presented in Attachment B. The proposal level represents their view of PACT's capacity to absorb and use well AID's funding input without significant change in organization or modus operandi. The arguments advanced in the proposal that, e.g., funding increases are required to proportionately increase investment in regions outside Latin America, will have to be accommodated within a lower ceiling.

In view of the mortgaging factor on PVC's portfolio and the effect of the restrictions discussed in the summary (no non-AID country projects except as justified, AID clearance prior to funding projects in the same country and sector to PVO's receiving MG, OPG or Co-financing support, etc.), PACT's proposed level will be reduced to \$12,500,000 which still represents an increase of about 15%. The effect of this on the proposal's outputs described above will reduce project fund activity from 94 new project starts to 60 and 125 refundings to 110. This compares to the 50 plus new projects initiated under PACT's current grant.

In our budget (Attachment B. 2.) we have held PACT to the same investment level in evaluation and assessment they proposed and

maintained their proposed private fund raising target of \$450,000. We applied the same percentage factor on AID funds as described in their original proposal, i.e., 67%, to the project fund, held operating expense at their proposed level, and reduced supportive activities accordingly. The net effect of this will be to proportionately reduce their investment in supportive activities grants and consortia grants because the evaluation input and operating expense is held constant. This results in an operating expense level of \$3.2 million over the life of grant compared to a projected \$2.0 million level over the life of the current grant. It represents a proportional increase in the allocation of AID funds but only a modest increase in PACT's last year's operating expense. PACT's current annual operating expense is about \$850,000/year. The proposed level of \$900,000 for the first year reflects inflation and increased activity in evaluation and assessment. It is 25% of AID's input but less than 14% if the matching contributions are included.

PACT has proposed an increased staffing level of 3 positions over their current complement of 13 full time and 1 part-time staff; an additional person for project fund operations, a person equivalent for evaluation/assessment and a later additional person for fund raising and membership affairs. We endorse the evaluation position. PACT is aware that the funds development position must be financed from non-AID sources, and the additional position for the project fund operations is a subject for future discussion and decision between AID and PACT.

PACT's proposal is vague on reporting requirements and evaluation of grant activity except to emphasize their acknowledged responsiveness to AID requirements. PACT's grant manager has found that the current system is inadequate to the evolving needs of PVC and information sharing with the USAIDs. In the new grant, PACT will be required to report on a country program basis including activity description, purpose, location, local counterpart, financial and program status information, and develop an information system which can provide timely updates other than at the Annual Report period. The Annual Report will also have to specifically cover such topics as support to indigenous development agencies, sector and geographic region distribution of activities, and evaluation/assessment activities as well as regular financial reporting including private fund raising.

A major evaluation should be scheduled to begin o/a 5/84. This would reduce the timing and sequence problems encountered this year and should preferably be done by the same evaluators who prepared the most recent report. This would be most efficient in terms of program knowledge and cost. Both reporting and evaluation requirements will be further specified in the new agreement and subsequent correspondence.

In sum, PACT'S proposal reflects continuation of activities which they perform well in sectors which fall within AID priorities, their intention to invest more outside of Latin America, in further development of indigenous agencies and in evaluation and assessment of PVO development efforts. They forecast increased private funding and potential institutional changes (procedural and membership) which will be further discussed with us. Our reduction of their proposed funding level reflects the probable effect of conditions we are imposing (country restrictions, AID clearances where potential for redundant activity exists) and mortgage considerations in the management of PVC's portfolio. We recommend no other conditions but will monitor PACT's activity to assure ourselves that they are moving responsibly in their intended new directions.

ISSUES

In reviewing the evaluation and proposal both internally and with other Bureau representatives a long list of issues was reduced to the key concerns discussed below:

A. PACT's role and its value to AID:

In view of the evolution of AID's relationship with PACT's members and the PVO community at large since PACT began in 1971, does PACT still perform a necessary and useful role as a PVO intermediary for AID support to Third World development? Does it do so in a cost-effective manner and in ways not otherwise available to AID? These questions in one form or another dominated the issues discussions of PACT's proposal.

We have examined the projects they fund in terms of size, \$54,000/year for 2-3 years, compared to FY 81 funding by USAIDs of PVO activity. AID's average is \$259,100 per year for OPGs and Co-financing sub-projects with annual funding as the predominant practice. There is also substantial variation by region, e.g.:

	OPGS
AFR	\$437,300/year
LAC	\$160,100/year
NE	\$640,800/year
ASIA	\$145,300/year
ASIA Co-financing Sub-projects	\$192,900/year

PACT projects, in which AID funds represent a little more than half of the overall cash cost, thus generally operate at a lower level of AID inputs than USAID relationships with PVO's. While within these averages individual Missions may fund projects comparable in size (as well as nature) this does not reflect common AID practice.

While PACT members enjoy a variety of relationships with AID, e.g., currently 8 U.S. PVO members have Matching Grants, 2 have other centrally funded grants or agreements and many have OPG agreements with specific country Missions, our analysis and the evaluation indicate that PACT plays a distinctive role for its membership and in the projects it funds. Despite the significantly larger resources on which they can draw, and the acknowledged rigor of PACT's criteria and process, PACT is respected, not to say cherished, as a funding source when:

- start-up funding is need for projects with some degree of risk or innovation,
- when funding requirements are modest, and
- when rapid response is important.

PACT's role in innovative/experimental funding is best demonstrated by their early funding of new projects or new activities in existing projects. They can respond when other, larger donors are unwilling or unable to do so because the grant is too small or because the activity or implementing agency does not have a demonstrable record of success. PACT funding is up-front and will cover the costs of administration sometimes shunned by other donors. By process and policy, PACT will support newer and smaller indigenous agencies which may not have extensive experience with the requirements of foreign donors. A measure of the importance and success of this role is the fact that many projects have been successful in attracting larger support from AID or other international donors.

The examples cited below represent cases wherein this aspect of PACT support has worked well.

Africa Small Business

PACT has provided start-up grants to two member agencies involved in small business projects. In each instance, PACT provided initial funding for the agency to start operations in a country and the agency subsequently expanded its program and attracted funds from other donors including AID. Examples include:

Partnership for Productivity (PFP) and Technoserve/Kenya

- first PACT support, 1973, as each agency initiated operations. Subsequent funding from AID and others.
- PfP/Malawi - PACT grant, 1978, to initiate program; subsequent OPG.
- PfP/Botswana - PACT grant, 1977, to initiate program; subsequent OPG.
- PfP/Liberia - PACT grant, 1974, to initiate operations; subsequent OPG.
- Technoserve/Ghana - PACT grant, 1974, in early stage of program; subsequent AID and other funding.

Establishment of Development Trusts, Vanuatu and Solomon Islands

PACT grants to the Foundation for the Peoples of the South Pacific (FPSP) provided initial funding for the establishment of development trusts in both Vanuatu and the Solomon Islands. The Trusts are indigenous organizations that provide technical and financial assistance to community-based and planned rural development projects in the island groups. There are few indigenous PVOs in either of these newly independent countries and the Development Trusts were pioneering efforts to join together various local initiatives and leaders in the islands. The Trusts represent an innovative approach to developing local capacities to manage development projects.

FPSP is investigating the interest in Trusts in other Pacific nations and the concept is attracting considerable interest among other development organizations.

Sri Lanka/Save The Children

PACT provided a three-year grant to Save the Children to initiate an urban development project in Kirillapone, a shanty area of Colombo. The project was experimental in several respects: (1) numerous other projects had been unsuccessful in these areas; (2) SAVE was transferring many of the elements of its CBIRD methodology to an urban setting, whereas previously its experience had been in mainly rural areas; (3) the housing component, a central element of the project, was designed to utilize materials and techniques of appropriate cost and which could be produced in the community, and (4) a housing revolving loan was introduced in an area where large defaults had been the experience of other programs.

PACT provided funding at the start of the program and has continued to provide funds for the housing revolving loan program.

FUNDAEC/Colombia

In 1979, PACT provided the first part of a three-year grant to the Fundacion para la Aplicacion y Ensenanza de las Ciencias (FUNDAEC) for a project entitled "Technology for Rural Well-Being". Convinced that new methods of assistance to the rural sector were needed, FUNDAEC designed a multi-faceted program using a unique methodology to detect and identify community needs and select options to meet these needs.

The basic program components include: (1) recruitment for training of young men and women who would work within the rural milieu itself and who would seek solutions to problems related to health, nutrition, sanitation, housing, agricultural production and income generation; (2) provision of formal training for the young people over an extended period of time; (3) development of appropriate technologies; and (4) organization of communities for the purposes of implementing self-help projects. An overall goal has been to search for and devise the mechanisms to take science (in the broadest sense of word) to the rural people, and to create an increasing capacity to find technologies more appropriate to the life style and cultural values of small farmers.

A PACT member, VITA, played a complementary role in this project as technical advisor and in the provision and organization of technical information.

SOLIDARIOS

In 1977, PACT provided a seed grant to SOLIDARIOS to enable it to initiate operation of a Hemispheric Loan Fund. Other donors had expressed tentative interest but were waiting for the Fund to demonstrate it had established procedures and a portfolio.

PACT assistance allowed SOLIDARIOS to finalize procedures and to make initial loans. Subsequent funding from international donors has totalled more than 6 million.

The fund is an innovative approach in that it places responsibility for managing a loan portfolio in the hands of a regional consortium of member National Development Foundation's (NDFs). To date, through the NDFs, a significant variety of loans has been made available for small community-based development projects in Bolivia, Argentina, Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Dominican Republic, Mexico and Uruguay.

We believe this capacity to fund smaller and innovative projects at an early stage is a useful complement to AID's operations and should be continued.

Questions have been raised as to the cost of doing this given PACT's role as intermediary between A.I.D. and its grantees. Objective evaluation of this point is difficult. PACT's cost per dollars granted are higher than AID centrally managed grants or USAID grants to PVO's. On the other hand, PACT's administrative cost per project averages \$11,300 compared to PVC's \$30,400 (FY 81) and USAIDS' \$35,800 (FY 80). These are very crude indicators but probably reflect relative relationships. It is our considered opinion that while AID Missions could and sometimes do relate to and fund PVO activity in a comparably flexible and timely manner, their cost in doing so would not be less than PACT's.

B. Private Support and Contributions to PACT

While non-A.I.D. contributions to PACT projects come close to matching A.I.D.'s input, direct private support to PACT has been minimal in the past. PACT's Board (largely PVO membership executives) has directed PACT to diversify its funding base, focus on increased private funding of U.S. and indigenous PVOs in international development and continue requiring that PACT funding (predominantly AID) be matched by other cash resources in projects, supportive activities and other facets of their operations.

Were PACT to attempt a major fund-raising campaign of its own, it would be considered competitive to the fund raising of its member agencies each of whom are actively engaged in the same pursuit. Nonetheless, a target of \$450,000 has been set over three years which PACT proposes to attribute to supportive activities including consortia grants and evaluation (\$225,000) and operating expense (\$225,000).

Despite this new fund-raising effort which we will continue to encourage, we do not expect PACT to develop a significant private funding base. PACT's main contribution to securing non-AID funds for development lies in the conditions and criteria it imposes on grantees before awarding the AID funds it grants. These conditions, an approximate cash match for project funds and, a mandatory cash match for supportive activities, do not include other AID funds or in-kind contributions. The match thus leverages non-AID money and secures complementary investment from PACT's grantees and their local partners.

Grant reporting requires quarterly reports on the use of PACT (AID) funds as well as the use of non-AID cash contributions to the grant activity. PACT's quarterly financial reports to AID list, on the basis of grantee reports to PACT, expenditure of AID funds as well as non-AID cash expenditures. For example, PACT's April quarterly financial report to AID lists \$12.3

million for AID expenditures for 120 projects and \$11.8 million for non-AID cash expenditures. The non-AID expenditures statements are thus verifiable in terms of grantee reporting and auditable at the grantee organization level.

Private funds raised by PACT will be applied to supportive activities including consortia grants and evaluation. Operating expenses will also benefit from private funds raised to a limited extent for those items AID cannot cover such as fund-raising costs.

PACT has raised about \$237,800 from private sources including membership dues, with foundation, corporation and other support of about \$92,000 during their last year. PACTs proposed private funding levels are projected at \$100,000, \$150,000 and \$200,000 over the next three years of the grant. These do not seem unreasonable targets, are to be encouraged and will be monitored on an annual basis. Total non-AID contributions including private fund raising represent 45% of the total grant activity level, AID inputs cover 55%.

C. Country Limitations on PACT's Program

PACT has been advised that its funding will be restricted to the AID country listing as described in the Matching Grant guidance unless specific exceptions are granted by AID.

PACT's portfolio under current and prior grants has supported activities in a number of non-AID countries. 22% of total AID funds obligated and 21% of all PACT projects involved Argentina, Brazil, Chile, Colombia, Mexico and Uruguay with the largest number in Colombia. Past grant terms did not restrict funding by country.

We expect PACT to request a waiver as a separate, post-grant transaction for projects in some countries not on the list. We believe they will seek authorization to complete funding of ongoing projects in some countries such as Argentina, Brazil, and Colombia and, probably, authorization to fund new projects in Colombia where they have two non-U.S. members of PACT, Servivienda (low-cost housing) and FICITEC (small enterprise development).

The restriction also poses problems for support to Solidarios, a PACT member organization and consortium of National Development Foundations in Latin America. Since its membership includes National Development Foundations (NDFs) in Mexico, Uruguay, Argentina and Colombia, and certain activities involve all of them, this will have to be reviewed when and as PACT makes a case for pass-through funding to non-AID country NDFs' linked to Solidarios.

Generally speaking, we do not anticipate the need for a large number of exceptions, particularly given PACT's intention to

expand activities in Asian and African countries where AID operates.

D. Limitations on PACT Grants to agencies receiving MG, OPG or Co-financing support in a given country and sector

Questions have been raised about the appropriateness of PACT's funding activities in countries and sectors where AID provides Matching Grant, OPG or Co-Financing support to PVO activity. We propose to define the conditions under which this can be done in the new grant. This will address concerns within PVC and among the Regional Bureaus about the appropriateness of PACT funding when other resources may be more directly available. PACT's U.S. PVO members receive support from Matching Grants (8), Cooperative Agreements (2) as well as many OPGs. A non-U.S. PACT member, Solidarios, has received over \$4.0 million from AID sources apart from PACT. Given this multiplicity of possible sources from which to fund project activities, we propose this limitation to assure that (a) PACT maintains its special role as a start-up, innovative, small projects funder with a quick response capability and (b) to reduce USAID (and Regional Bureau) concerns that PACT funds duplicate bilateral programming efforts.

Specifically, we propose that when a prospective grantee has a current or planned relationship with AID, such as a Matching Grant, OPG or Co-financing, PACT be required to consult closely with AID through PVC to assure that PACT funding is consistent with Mission plans for its program in a particular sector. This consultation will need to occur as early as possible in the project development stage.

PACT's review of a proposed activity must take into account AID's comments, and PACT's approval of a grant proposal will signify that there is no objection or a positive response to PACT funding a project in that country and sector. PVC will attempt to broker any differences in consultation with the Regional Bureau and the USAID involved and must advise PACT of the AID position before PACT proceeds any further.

This condition should have the added benefit of reinforcing our objective of improving communication between PACT and the AID Missions in countries where PACT operates.

FIELD VIEWS

Copies of PACT's evaluation and proposal were pouched on 7/14/82 to 11 Missions, to Bangkok, Dacca and Jakarta because they expressed interest in the evaluation, to Santo Domingo, Tegucigalpa, Bogota, Nairobi, Lome, Monrovia and Dakar because they were visited during the course of the evaluation and PACT operations specifically discussed with USAID staff in six of the posts, and to Quito because the Mission perceived a problem in PACT for its bilateral programming or modus operandi.

A lengthy immediate cable summarizing the evaluation proposal and issues was to have been sent 7/15/82 but was inexplicably lost in the cable room. This has been repeated in edited form (Attachment C) on 8/02/82 so that USAID comments may be taken into account during the grant drafting period if not during the review of this Action Memo.

Recommendation: That you approve the proposed grant under the conditions described above including a life-of-project authorization of \$12,500,000 and FY 82 funding of \$4,000,000.

APPROVED: John G. Plunk

DISAPPROVED: _____

Date: 8/10/82

Attachments:

- A. History of PACT-AID Relationship
- B. 1. PACT Budget Analysis, current grant (thru 8/31/82) and PACT's proposed budget (\$16.5 million)
- 2. Revised PACT budget for new grant (12.5 million)
- C. Cable to USAID's soliciting comments on PACT's proposal

Clearances:

LAC/DP:PMaguire (draft) Date 8/09/82
 ASIA/DP:ASilver (draft) Date 8/09/82
 AFR/PMR/HA:HSmith (draft) Date 8/09/82
 NE/TECH:JNandy (draft) Date 8/10/82
 PPC/PB:KPoe (draft) Date 8/09/82 by John Harmon
 FVA/PE:LStamberg (draft) Date 8/10/82
 FVA/PVC:SBergen (draft) Date 8-10-82

Drafter: FVA/PVC: T. L. Lyche 8/05/82

(From RRNA 1982 Evaluation, as up-dated 7/27/82)

History of PACT-AID Relationship

Important points in the history of PACT and its relationship with AID are as follows:

- 1970 Representatives of certain private voluntary agencies (PVOs) discuss formation of a consortium;
- 1971 Eight PVOs form PACT;
- 1972 AID grants \$149,000 (AID/csd-3635) for administrative costs;
- 1973 AID grants \$300,000 (AID/cm/pha-8-73-19) for technical assistance projects; PACT funds first LDC projects;
- 1974-75 AID amends grant agreement to provide additional \$736,000, with PACT administrative costs included in technical assistance grant; contributions from non-AID sources directly to projects funded by PACT become allowable as PACT matching share;
- 1975 First independent evaluation of PACT, funded by AID, recommends continued funding of PACT;
- 1977 PACT begins Supportive Activities Grants; membership reaches 13;
- 1975-78 AID continues regular amendments to increase grant total to a cumulative \$6,181,000;
- 1979 AID gives PACT new general support grant of \$2,900,000 (AID/SOD/PCD-G-0213) for one year with planned funding for 3 years; PACT membership reaches 19;
- 1980 AID amends grant agreement to provide additional \$3,500,000; PACT revises criteria and guidelines for Project Fund and initiates new funding window of Support for Consortia;
- 1981 AID amends grant agreement to provide additional \$3,500,000; bringing total to \$9,900,000 for grant period since 1979; AID amends grant agreement also to include new Project Fund guidelines and Support for Consortia; membership reaches 20;

1982

Second independent evaluation of PACT funded by AID and PACT; AID approves extension of current grant agreement and additional funds for a new grant total of \$10,800,000. PACT submits proposal for new agreement June 30, 1982.

PACT BUDGET ANALYSIS

Current grant/new proposal

	CURRENT GRANT			PROPOSED NEW GRANT		
	Disbursements thru 3/82	Projected Obligations thru 8/82	LOP Totals	1st Yr.	2nd Yr.	3rd Yr.
I. <u>Project Fund</u>	<u>12,440.3</u>	<u>15,104.7</u>	<u>23,600.0</u>	<u>7,100.0</u>	<u>7,900.0</u>	<u>8,600.0</u>
Non-AID (match) private thru PACT	5,779.2	7,017.1	12,500.0	3,800.0	4,200.0	4,500.0
ST	-	-	-	-	-	-
AID	<u>5,779.2</u>	<u>7,017.1</u>	<u>12,500.0</u>	<u>3,800.0</u>	<u>4,200.0</u>	<u>4,500.0</u>
	6,661.1	8,087.6	11,100.0	3,300.0	3,700.0	4,100.0
II. <u>Supportive Activities</u>	<u>1,212.1</u>	<u>1,472.6</u>	<u>4,135.0</u>	<u>1,100.0</u>	<u>1,325.0</u>	<u>1,700.0</u>
Non-AID (match) private thru PACT	525.0	638.2	1,675.0	450.0	525.0	700.0
ST	50.0	60.0	225.0	50.0	75.0	100.0
AID	<u>575.0</u>	<u>698.2</u>	<u>1,900.0</u>	<u>500.0</u>	<u>600.0</u>	<u>800.0</u>
	637.1	774.4	2,235.0	600.0	735.0	900.0
. SA grants			(1,680.0)			
. Consortia Grants			(1,825.0)			
. Eval/Assessment			(630.0)			
III. <u>Operating Expense</u>	<u>1,676.1</u>	<u>2,035.1</u>	<u>3,390.0</u>	<u>950.0</u>	<u>1,140.0</u>	<u>1,300.0</u>
Non-AID (match) private thru PACT	-	-	-	-	-	-
ST	80.0	97.1	225.0	50.0	75.0	100.0
AID	<u>80.0</u>	<u>97.1</u>	<u>225.0</u>	<u>50.0</u>	<u>75.0</u>	<u>100.0</u>
	1,596.1	1,938.0	3,165.0	900.0	1,065.0	1,200.0
. Administration			(810.0)			
. Prof. Fund Support			(1,726.7)			
. SA Support			(853.0)			
IV. <u>TOTALS</u>	<u>15,328.5</u>	<u>18,612.4</u>	<u>31,125.0</u>	<u>9,150.0</u>	<u>10,375.0</u>	<u>11,600.0</u>
Non-AID (match) private thru PACT	6,304.2	1,655.3	14,175.0	4,250.0	4,725.0	5,200.0
ST	130.0	157.1	450.0	100.0	150.0	200.0
AID	<u>6,434.2</u>	<u>7,812.4</u>	<u>14,625.0</u>	<u>4,350.0</u>	<u>4,875.0</u>	<u>5,400.0</u>
	8,894.3	10,800.0	16,500.0	4,800.0	5,500.0	6,200.0

← Non-add, describes attribution within Supportive Activities Line Item.

← Non-add, describes costs within operating expense line item.

REVISED PACT GRANT BUDGET, ILLUSTRATIVE (\$000's)

					REMARKS	
I.	<u>Project Fund</u>	<u>17,805</u>	<u>5,700</u>	<u>5,700</u>	<u>6,405</u>	Reductions in the project fund change new projects from 94 to 60, and refundings from 125 to 110
	Non AID (match)	9,430	3,020	3,020	3,390	
	private thru PACT	-	-	-	-	
	ST	<u>9,430</u>	<u>3,020</u>	<u>3,020</u>	<u>3,390</u>	
	AID	<u>8,375</u>	<u>2,680</u>	<u>2,680</u>	<u>3,015</u>	
II.	<u>Supportive Activities</u>	<u>1,775</u>	<u>550</u>	<u>575</u>	<u>650</u>	
	Non AID (match)	590	190	190	210	
	private thru PACT	225	50	75	100	
	ST	<u>815</u>	<u>240</u>	<u>265</u>	<u>310</u>	
	AID	<u>960</u>	<u>310</u>	<u>310</u>	<u>340</u>	
	. SA grants	(550)				
	. Consortia Grants	(595)				
	. Eval/Assessment	(630)				
III.	<u>Operating Expense</u>	<u>3,390</u>	<u>950</u>	<u>1,140</u>	<u>1,300</u>	
	Non AID (match)	-	-	-	-	
	private thru PACT	225	50	75	100	
	ST	<u>225</u>	<u>50</u>	<u>75</u>	<u>100</u>	
	AID	<u>3,165</u>	<u>900</u>	<u>1,065</u>	<u>1,200</u>	
IV.	<u>TOTALS</u>	<u>22,970</u>	<u>7,200</u>	<u>7,415</u>	<u>8,355</u>	
	Non AID (match)	10,020	3,210	3,210	3,600	
	private thru PACT	450	100	150	200	
	ST	<u>10,470</u>	<u>3,310</u>	<u>3,360</u>	<u>3,800</u>	
	AID	<u>12,500</u>	<u>3,890</u>	<u>4,055</u>	<u>4,555</u>	

← Non-add, describes attribution within Supportive Activities line-item. Evaluation/Assessment held constant from PACT's proposed level.

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ORIGIN OFFICE PVC-02
INFO AFCW-03 AAAS-01 ASEM-01 ASPT-02 LACE-03 LASA-03 LADP-03
FVA-02 HETC-04 PPCE-01 PDPR-01 PPPB-03 GC-01 GCAS-01
GCFL-01 FM-02 ASPD-03 ASTR-01 MAST-01 ASSP-02 ASBI-03
WAB-01 AFPM-01 /046 A4 83

INFO OCT-00 AF-00 EA-12 NEA-07 ARA-16 /030 R

DRAFTED BY AID/FVA/PVC:T LUCHE:LWS
APPROVED BY AID/FVA/PVC:S BERGEN
AID/LAC/DP:P MAGUIRE (PHONE)
AID/ASIA/DP:F LAVIN (SUBS)
AID/AFR/PMR/HA:H SMITH (SUBS)
AID/HE/TECH/SPRE:J NANDY (INFO)
AID/PPC/PB:K POE (INFO)
AID/ASIA:S SINGER (INFO)
AID/AFR/CWA:S ANDERSON (INFO)
AID/ASIA:E PLOCH (INFO)
DESIRED DISTRIBUTION
ORIGIN PVC INFO AFCW AFPM AAAS ASEM ASPT ASSP ASBI LACE LACA LADP
LADR HETC PPCE PDPR PPPB GC GCAS GCFL FVA FM ACPD ASTR WAB END
-----274023 021709Z /38

O 021626Z AUG 82
FM SECSTATE WASHDC
TO AMEMBASSY BANGKOK IMMEDIATE
AMEMBASSY DACCA IMMEDIATE
AMEMBASSY JAKARTA IMMEDIATE
AMEMBASSY SANTO DOMINGO IMMEDIATE
AMEMBASSY QUITO IMMEDIATE
AMEMBASSY TEGUCIGALPA IMMEDIATE
AMEMBASSY BOGOTA IMMEDIATE
AMEMBASSY NAIROBI IMMEDIATE
AMEMBASSY LOME IMMEDIATE
AMEMBASSY MONROVIA IMMEDIATE
AMEMBASSY DAKAR IMMEDIATE

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AIDAC

E.O. 12356: N/A

;AGS:

SUBJECT: PRIVATE AGENCIES COLLABORATING TOGETHER (PACT)
PROPOSAL FOR A NEW GRANT AND RECENT EVALUATION FINDINGS

1. BASED ON YOUR CURRENT KNOWLEDGE OF SPECIFIC PACT FUNDED PROJECTS IN YOUR COUNTRY OR PACT'S WORK IN GENERAL IN SUPPORT OF SMALL PROJECTS WITH U.S. AND INDIGENOUS PVO'S (IPVOS), WE WOULD WELCOME YOUR COMMENTS ON PACT'S PROPOSAL TO AID FOR CONTINUED SUPPORT FOR THE NEXT THREE YEARS.

2. THE PACT GRANT IS AN ALTERNATIVE FUNDING MECHANISM TO PROVIDE ASSISTANCE THROUGH AN INTERMEDIARY TO THE COLLABORATIVE WORK OF U.S. PVO'S AND IPVOS. PACT IS A CONSORTIUM OF 20 U.S. AND IPVOS, MOSTLY USPVO'S, FORMED WITH AID SUPPORT IN 1972. PACT IS JUST COMPLETING A DOLS 10.8 MILLION GRANT (5/79-8/82) TO EXPAND AND STRENGTHEN PVO'S CAPABILITIES TO ASSIST DEVELOPMENT PROGRAMS IN THE LDCS. GRANT ACTIVITIES INCLUDE:

A. THE PROJECT FUND (AVG. PROJECT GRANT DOLS 54,000/YR OVER THREE YRS) COVERS ACTIVITIES IN SMALL BUSINESS, AGRICULTURE, HEALTH, TRG AND NFE, AT, COOPS, CREDIT, HOUSING, CD AND REHABILITATION OF THE HANDICAPPED WHICH STRESS BENEFICIARY PARTICIPATION. ACTIVITIES OCCUR WORLD-WIDE, THERE WERE OVER 50 ACTIVE PROJECTS IN 27 COUNTRIES IN 1981.

B. SUPPORTIVE ACTIVITIES (SA) FUND (INCLUDING GRANTS TO IPVOS CONSORTIA IN LDCS SUCH AS SOLIDARIOS IN SANTO DOMINGO AND CONGAT IN LOME). SA FUNDS ARE NTE DOLS 10,000 AND REQUIRE A 1/1 MATCH BY RECIPIENTS (EXCEPT CONSORTIA) AND SUPPORT IMPROVED INSTITUTIONAL CAPACITY THROUGH SHARING EXPERIENCE AND SKILLS IN DESIGN, TRAINING, EVALUATION AND TECHNICAL AND PROGRAMMATIC INTERCHANGE.

3. COPIES OF PACT'S RECENT EVALUATION AND THEIR NEW PROPOSAL FOR ANOTHER GRANT HAVE BEEN RECENTLY POUCHED TO YOU ON 7/14/82 FOR YOUR COMMENT. WE REGRET THAT, DUE TO THE SHORT TIME FRAME FOR REVIEW, DECISION AND OBLIGATION, YOUR COMMENTS MUST BE SOLICITED NOW BEFORE YOUR RECEIPT OF THE FULL DOCUMENTS. SINCE OUR REVIEW OF PACT IS IMMINENT YOUR RESPONSE WOULD BE APPRECIATED ASAP. YOUR REPLY UNFORTUNATELY, WILL HAVE TO BE BASED ON THE SUMMARIES PRESENTED BELOW AND YOU MAY WISH TO SEND YOUR RESPONSE IMMEDIATE SLUGGED FOR YOUR REGIONAL PVO LIAISON OFFICER AND FVA/PVC. WHEN THE EVALUATION AND PROPOSAL DOCUMENTS ARE RECEIVED AND REVIEWED, YOUR LATER COMMENTS COULD BE CONSIDERED IN FRAMING THE GRANT AGREEMENT.

4. RR NATHAN ASSOCS PERFORMED A THOROUGH AND OBJECTIVE EVALUATION OF PACT'S ACTIVITIES DURING 1978-82, ATTEMPTING TO EXAMINE HOW PACT OPERATES, WHAT IT ACCOMPLISHES AND WITH WHAT DEGREE OF EFFICIENCY AND EFFECT. RRNA VISITED 19 PROJECTS IN 7 COUNTRIES IN LA AND AFRICA, INTERVIEWED AND COLLATED RESPONSES FROM FIELD STAFF, BENEFICIARIES, USAIDS, PACT STAFF MEMBERS, BOARD, AND AID PERSONNEL. THE REPORT RATES PACT FUNDED PROJECTS AS 26 PERCENT EXCELLENT, 58 PERCENT SATISFACTORY (GOOD OR SATISFACTORY WITH SOME PROBLEMS) AND 16 PERCENT UNSATISFACTORY. THE EVALUATION REPORT STATES THAT THE PACT PROCESS OF INTENSIVE AND THOUGH-MINDED REVIEW OF PROPOSALS AND OF IMPLEMENTATION BEFORE REFUNDING HAS LED TO BETTER PROJECT DESIGN AND, DESPITE CONFLICTIVE RELATIONSHIPS WITH GRANTEES, HAS BEEN A VERY POSITIVE FACTOR. THE REPORT SUGGESTS FURTHER ATTENTION TO COST-EFFECTIVENESS CONSIDERATIONS IN BOTH PROJECT SELECTION AND PROGRAM PROCEDURES.

5. THE NEW GRANT PROPOSAL REQUESTS DOLS 16.5 MILLION OVER THREE YEARS AND PROJECTS NON-AID INPUTS OF DOLS 14.6 MILLION OVER THE SAME PERIOD. ACTIVITIES ARE THE SAME AS DESCRIBED IN PARA 2 ABOVE WITH AID FUNDS ATTRIBUTED TO THE

PROJECT FUND 67 PERCENT), SUPPORTI ACTIVITIES, INCLUDING CONSORTIA GRANTS AND INCREASED EMPHASIS ON EVALUATION/ASSESSMENT (14 PERCENT) AND OPERATING EXPENSE, INCLUDING PROJECT SUPPORT AND OVERHEAD (19 PERCENT). SECTOR SUPPORTED WILL REMAIN THE SAME WITH INCREASED PROGRAM CONCENTRATION IN AFRICA AND ASIA AND MORE FUNDING FOR INDIGENOUS PVO'S DIRECTLY OR THROUGH CONSORTIA OR IN COLLABORATION WITH U.S. PVO'S.

6. CONTINUING REVIEW OF THE PROPOSAL AND EVALUATION IDENTIFIED THE FOLLOWING ISSUES:

- COST-EFFECTIVENESS AND COST-SHARING.
- CAN THE PACT PROCESS BE MADE LESS CONFLICTIVE WHILE RETAINING ITS RIGOR?
- COLLABORATION BETWEEN U.S. AND LOCAL PVO'S, SHOULD IT CONTINUE TO BE STRESSED
- RELATIONSHIP OF PACT FUNDED PROJECTS TO USAID COUNTRY PROGRAMS, COMMUNICATION OR CONTROL?
- PACT PROGRAM DEVELOPMENT STRATEGIES: SHOULD PACT CONTINUE TO FUND PROJECTS ON A DEMAND BASIS OR SHOULD IT BE FURTHER CONCENTRATED IN SOME WAY?

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- THERE ARE OTHER ISSUES BUT, TOGETHER WITH THOSE ABOVE, THEY CAN BE GROUPED INTO TWO CATEGORIES (A) SHOULD AID CONTINUE TO SUPPORT PACT AS A PVO INTERMEDIARY SMALL PROJECTS FUNDER AND AS A MEANS OF STRENGTHENING PVO INSTITUTIONAL CAPABILITIES AND (B) IF SO, SHOULD ANYTHING BE DONE TO ASSURE A CLOSER FIT WITH AID PROGRAMMING. ON THIS LATTER POINT, AID PROBABLY WILL REQUIRE PRIOR USAID CONCURRENCE BEFORE PACT GRANTS FUNDS TO ORGANIZATIONS RECEIVING MATCHING GRANT, OPG OR CO-FI SUPPORT IN A GIVEN COUNTRY AND SECTOR. PACT FUNDS WILL ALSO BE RESTRICTED TO QUOTE AID COUNTRIES UNQUOTE EXCEPT AS JUSTIFIED.

7. FVA/PVC REGRETS THE SHORT PERIOD PROPOSED FOR YOUR RESPONSE BUT SOLICITS YOUR THOUGHTFUL REVIEW.

8. FYI: THIS CABLE, TO HAVE BEEN SENT 7/15, WAS LOST PRIOR TRANSMISSION AND THIS IS AN EDITED REPEAT VERSION. SHULTZ

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