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A.I.D. COMMENTS ON THE GAO REPORT "CHANNELLING FOREIGN AID THROUGH PRIVATE AND VOLUNTARY ORGANIZATIONS"

The General Accounting Office Report (ID 76-58) prepared at the request of the Senate Appropriations Subcommittee on Foreign Operations is a reasonable and balanced report based on an extensive examination of the Agency for International Development's program for "Channelling Foreign Aid through Private and Voluntary Organizations." The examination explores the relationship of A.I.D. specifically, and the U.S. Government generally, with private and voluntary organizations in the context of their expanded role in development programs overseas. The Report expresses some of the same concerns felt in A.I.D. about some aspects of this relationship particularly as they affect the new directions in the programs of voluntary agencies. In addition to the six specific recommendations made in the Report, four general issues related to the overall role of PVOs and the nature of their relationship with A.I.D. were also discussed. Comments on these issues are presented first as a background for our response to each of the recommendations.

General Issues

1. Degree of PVO Independence in Program Management versus Accountability for Expenditure of Grant Funds. From the time A.I.D. began to support voluntary agencies, our chief concern has been to protect the independence and autonomy of these agencies. We recognized that the imposition of A.I.D.'s own rules, standards, and priorities on the voluntary agencies (some with programs and objectives extending beyond those of A.I.D.) could be harmful to, if not destructive of, those aspects of voluntary agencies which made them attractive vehicles for conducting development programs directed at the rural poor. Coupled with this concern has been the realization that public funds must be accounted for. Consequently, A.I.D. has sought to maintain a delicate balance between these objectives. We believe that we are succeeding, but they require constant vigilance by the Executive and Legislative Branches, and the private voluntary sector itself. We do not wish to intrude upon those activities of a voluntary agency not directly supported by government dollars. While we have waived many requirements in the A.I.D. systems for project design and evaluation for those agencies

requesting A.I.D. support, we are scrupulous in demanding an accounting for A.I.D. funds used by a voluntary agency. We are encouraged in this effort by the voluntary agencies themselves, which must be accountable on their own terms to their various donor groups. This same ambivalence between the concern for independence and the need for accountability is also reflected in the GAO Report. While the Report continually underlines the need for PVO autonomy, it also recommends adherence to A.I.D. programming priorities.

2. Imposition of A.I.D.'s Project Design Systems and Priorities on PVOs. The purpose of A.I.D.'s support for PVOs is to enhance and expand the role of voluntary agencies in development. At the outset, A.I.D. recognized that the PVOs have constituencies, access to additional financial resources, unique styles of operation, and their own sets of priorities. It was in recognition of these qualities that we made participation the watch-word in implementing the program. A.I.D.'s Advisory Committee on Voluntary Foreign Aid and the voluntary agencies joined in setting up the Development Assistance Policy Conference in April 1974, which launched the effort. Joint A.I.D.-PVO workshops on the administration of the program, a series of symposia concerning its substance, and a recent spate of activity dealing with the Agency-wide consistency and simplification of procedures followed.

New guidelines which have resulted from these meetings are generally consistent with the PVOs' own project evaluation and reporting systems and help preserve their independent identities. At the same time, these procedures reflect a shared concern for accountability for public funds to donors and taxpayers.

There are, nonetheless, constraints. Appropriated funds carry with them certain restrictions. The Foreign Assistance Act of 1961, as amended, prescribes certain priorities and regulations. A.I.D. must require compliance with these as it administers its grants. A.I.D. also works within the context of bilateral programs in which parameters and priorities are mutually negotiated between governments. Even though voluntary agencies execute specific overseas projects, these

must conform with the general agreements reached between the host governments and the U.S. Despite these limitations, the program seems to be flourishing.

3. Disproportionate Share of Assistance to Three Organizations Which are not Directing their Programs to the Rural Poor. The Report is critical of the large share of A.I.D.'s funds for private and voluntary agency activity that is directed to three agencies. It also suggests that the programs of two of these agencies are not focussed upon the rural poor.

The new program initiatives launched in mid-1974 in response to Congressional legislative changes and a recognition by A.I.D. of the mutuality of interest in the grass-root programs of PVOs were preceded by a long-established and flourishing relationship with those particular organizations. A.I.D. has supported the activities of the International Executive Service Corps (IESC) and the Asia Foundation for over a decade. Both agencies were created with the participation of government and have operated as a complement to official aid with considerable success. Despite the level of government support, their private management gives them a flexibility and style of program content and method of operation that government programs cannot achieve.

While A.I.D.'s programs now emphasize the three priority areas of food production and nutrition, population planning and health, and education and human resources development, the legislation also recognizes the need for and importance of more diverse programs such as those carried out by The Asia Foundation and IESC. Nevertheless, a portion of The Asia Foundation programs is directly addressed to A.I.D.'s specific concerns for family planning, non-formal education and training, unemployment, and the health and nutrition needs of the poor majority. IESC is also moving toward projects which are more labor-intensive, with an emphasis on non-formal education, training, and credit for small entrepreneurs.

The Asia Foundation's program is now being reviewed by an independent panel of eminent citizens headed by Erwin Canham, Editor Emeritus of the Christian Science

Monitor. In its next budget request, A.I.D. will present to the Congress its conclusions based on that study and will seek legislative reaffirmation of The Asia Foundation program.

A report of the Senate Foreign Relations Committee dealing with the authorization of A.I.D.'s program (September 3, 1974) stated the intention of the Committee to fund the foreign assistance activities of Opportunities Industrialization Centers International (OICI) under Section 105 of the Act. A.I.D. recognized existing inadequacies in the performance of OICI and has worked with OICI to correct those deficiencies. OICI has since taken major remedial measures which have permitted A.I.D. to continue to fund its operations in selected countries. OICI's leadership acted promptly and responsibly in accepting the criticism of its management and in taking corrective action. Thus, A.I.D. has taken the necessary prudent measures to ensure that OICI was capable of effective execution of its projects before new funds were released.

4. More Effective Use of PVO Programs through Centralized Management in A.I.D. versus Adverse Impact of Such Centralization on Control Currently Exercised by the Regional and Functional Bureaus. The A.I.D. Office of Private and Voluntary Cooperation (PVC) was set up to create and explore approaches to enlarge the role of voluntarism, formulate agency policy proposals in the area of voluntary agency participation, and monitor those activities to ensure conformity with A.I.D. policy. PVC has taken the lead in developing the new program and has established seminars, symposia, workshops for A.I.D. and PVO staff. It has helped to sort out and reconcile differences and achieved mutual understanding of concepts encountered in the development business, if not uniformity. As a result, recent sessions between A.I.D. and PVOs have gone great distances to achieve consistency of approaches on the part of the various Bureaus and, at the same time, a better understanding by the PVO community of the reasons for different approaches between bureaus. This office has also raised for the attention of A.I.D. management the issues and problems encountered in implementing the programs within the Agency. While the office serves as a "focal point" for resolution of general policy issues affecting the administration of PVO programs, A.I.D. continues to believe that Regional Bureaus must bear primary

responsibility for programs in their respective geographic areas. Having weighed the options, A.I.D. views regional diversity as being of greater importance than an enforced uniformity.

Specific Recommendations. Within the context of the above response on the general issues, the following comments are made on each of the recommendations:

Recommendation No. 1 -- "Develop a listing of groups which are considered private and voluntary organizations for purposes of reporting the total A.I.D. support of these organizations and establish a system for accurately reporting this total."

Comment -- The GAO report states that there is confusion within A.I.D. concerning the definition of a private and voluntary organization (PVO) and that no adequate system exists for consistently reporting on PVO activities.

At the time that the new initiatives for expanding the role of PVOs in development activities overseas were launched in Spring 1974, A.I.D. set out to define the community of organizations toward which this program was directed in a deliberate and conscious manner. But as the report of the Filer Commission suggests, the task was not simple:

"On the map of American society, one of the least charted regions is variously known as the voluntary, the private non-profit or simply the third sector.

"The sector as a whole is most broadly defined by what it is not. It is not government -- that is, its component organizations do not command the full power and authority of government, although some may exercise powerful influences over their members and some may even perform certain functions of government. Educational accrediting organizations, for instance, exercise aspects of the governmental power of licensing. For that matter, political parties can be considered to be a part of this sector although their relationship to government is pervasive and, in many instances -- congressional party caucuses, for instance -- inextricable.

"On the other hand, the third sector is not business. Its organizations do not exist to make profit and those that enjoy tax immunities are specifically prohibited from doing so, although near the boundaries of the sector many groups do serve primarily the economic interests of their members. Chambers of commerce, labor unions, trade associations, and the like hardly pretend to be principally altruistic."

An examination of the tax laws with regard to philanthropic and welfare organizations is similarly of little help in establishing the upper and lower limits of eligibility in the voluntary sector.

Despite these obstacles, A.I.D. tried to create an operational definition for the conduct for the new program. The accepted understanding within A.I.D. is that PVOs are associations which are (1) formally structured (i.e., have a legal existence, a charter/constitution, staff, etc.); (2) not-for-profit; (3) non-governmental; (4) whose membership and motivations are not commercial; and, (5) whose aims deal with development and humanitarian activities in the LDCs or have the potential of being useful in the development field. The non-sectarian service arms of the religious denominations are included in this number. They can be U.S., multinational, or native to the LDCs.

Two things should be borne in mind. One is that this relationship with PVOs was not A.I.D.'s first contact with them. For 30 years, these agencies have been asked to undertake activities as a part of the normal course of A.I.D. and predecessor agencies' programs abroad. They have been the principal distributors of food in both relief and development efforts. They have helped handle refugee problems and have performed a wide variety of relief services on a contract basis. Even before the new emphasis on their role in development activities, they received between \$30 and \$40 million in grants and contracts annually.

Second, when the phrase "private and voluntary organization (PVO)" was created, neither exclusivity nor precision was intended. Nonetheless, the problems in reporting on A.I.D.'s support for PVO activity are not so much a matter of applying the definition to the new programs but of sorting out and classifying those many agencies with which A.I.D. had been doing business for many years. Without either a legal definition or one on which usage

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had conferred acceptance, A.I.D. did its best to determine which of the many non-profit organizations were also "voluntary."

It must be remembered at the same time that A.I.D.'s data collection systems are generally established by country and by functional category. It had not established classifications for its contractors and grantees, and only the universities were traditionally singled out for special reporting. Consequently, a systematized and mechanized retrieval system which identifies PVOs is not in existence. While the manual efforts of collecting information were frail and resulted in the inconsistencies of prior efforts, the variations were slight and indicated the order of magnitude and scope of A.I.D.'s involvement with PVOs. This was all we set out to do at that time.

Beginning in Spring 1974, A.I.D. began working on the design of an automated data retrieval system which would consistently, accurately, and completely reflect the volume and nature of the A.I.D./PVO business. While there may be differences of view as to whether one agency or another is truly a PVO, the system will be controlled by the Office of Private and Voluntary Cooperation which has principal responsibility for A.I.D./PVO relationships. When completed, the system will eliminate many of the shortcomings apparent in the manual collection of information. The new system will provide needed information on several classes of current and future PVO activities but will exclude schools, universities, hospitals, research institutions, professional societies, trade associations, and foundations.

Recommendation No. 2 -- "Provide a central depository of information for use by PVOs and others concerning the wide variety of programs and activities in which PVOs may participate."

Comment -- The Office of Private and Voluntary Cooperation in A.I.D.'s Bureau for Population and Humanitarian Assistance (PHA/PVC) acts as the focal point for our overall relationships with the PVO community. This office has responsibility for policy and program initiatives, liaison, data collection, and the administration of general support and development program grants to PVOs. In addition, PHA/PVC serves as the Secretariat for the Advisory Committee on Voluntary Foreign Aid, which determines the eligibility of PVOs for other A.I.D. subventions, such as PL 480 food, ocean freight reimbursement, and excess property.

While PHA/PVC will continue to service PVO needs on overall policy questions, we believe the Regional Bureaus should have primary responsibility for maintaining working relationships with PVOs on specific country programs. This management method has worked well in the past and ensures that the activities of PVOs financed by A.I.D. are consistent with and complementary to other U.S. efforts in a specific country. Moreover, it permits direct access to those knowledgeable sources who can provide the detailed information needed by a PVO on a specific country. In this context, the Office of Private and Voluntary Cooperation will continue to assist PVOs and provide effective liaison between the PVOs and the Regional Bureaus to maintain open channels of communication within A.I.D.

Recommendation No. 3 -- "Establish specific guidelines for more consistently applying broad criteria when determining whether a contract or grant instrument should be used for a particular activity carried out by a PVO."

Comment -- The Agency established guidelines for the use of grants and contracts in Policy Determination No. 53, dated June 27, 1973. Grants are defined as "an agreement under which A.I.D. funds are given to support the programs or activities of the recipient."

"A grant is to be distinguished from a contract, which is an agreement under which the recipient of A.I.D. funds is committed to perform a service or provide goods. A grantee is not so committed, although he is not entitled to the granted funds unless he complies with the conditions of the grant." (Underlining added.)

This statement of contractor and grantee relationship is generally accepted throughout government and conforms to the Commission on Government Procurement.

Broadly speaking,

- grants are used for assistance programs, and
- contracts for procurement programs.

Obviously, no distinction between these agreements can be absolute. There are instances in which the decision to employ a grant or contract could go either way. It is finally a judgmental decision based on the specifics of the requirement and the objective of the relationship between the parties.

Recommendation Nos. 4 and 5 -- "Inform the Congress about the relationship between (a) the amount of A.I.D. support to a PVO and the amount received (by a PVO) from private contributions and other income; and (b) the nature of PVO programs receiving support and which specific groups of individuals in developing countries are benefitting from A.I.D. support."

Comment

(a) A detailed report concerning private and voluntary organizations registered with A.I.D.'s Advisory Committee on Voluntary Foreign Aid is published annually. This report reflects the kind and source of contributions received by those agencies. Similar information is obtained by A.I.D. for non-registered agencies which receive A.I.D. grants. In general, private contributions far exceed government funds; several agencies manage large programs which employ substantial amounts of PL 480 Title II food, and a few organizations receive most of their funds from government. As part of a routine effort, Congress and the public have ready access to such information through the annual Congressional Presentation and other reports published regularly by A.I.D. In addition, A.I.D. is in the final stages of implementing an automated data retrieval system which will provide comprehensive reporting on all PVOs receiving U.S. Government funds through A.I.D. This system will also more clearly categorize the type of organization receiving such support to avoid past confusion found in the various reports prepared by different A.I.D. offices.

The Report focusses on A.I.D. support to three agencies which receive the bulk of their revenue from the U.S. Government. However, the discussion confuses A.I.D.'s new programs with voluntary agencies with some of its long-standing activities with private agencies which extend over three decades. Some of the programs initiated early in that relationship remain valid and support continues. Other forms of support (e.g., to the cooperatives) are mandated by the Congress. The common thread is that PVOs are the agents for the conduct of the activities. Public policy recognizes the existence of the "quasi non-governmental organization" which has the countenance of the private, non-profit enterprise and even some of the characteristics of a truly voluntary association, yet it is largely or entirely financed from U.S. Government sources and often

serves an important public service. The International Executive Service Corps, The Asia Foundation, and Opportunities for Industrialization Centers, International fall into this category, although they represent the exception rather than the rule in A.I.D.'s relationships with PVOs.

(b) By far the greatest number of voluntary agencies with which A.I.D. works conduct programs and activities directly benefitting the poor. But in directing A.I.D. to give priority attention to the poor, Congress did not preclude some assistance that would be less direct in nature. Hence the programs of the International Executive Service Corps help increase productivity and create employment opportunities by working with large and small industry -- particularly agri-business -- in developing countries. Opportunities Industrialization Centers, International trains otherwise unemployable persons in skills required by the communities where it operates, and thus puts the unemployed into the labor force. While some of the more recent programs of The Asia Foundation are in the priority areas identified by the Foreign Assistance Act and directly affect the poor, the bulk of that agency's programs have less direct impact upon the poor of a community. Their primary effort is with the legal and academic communities, through which they focus on human rights questions, expansion of roles for women, and the social setting affecting the entire community. The role of each of these organizations is unique and permits initiatives in diverse but essential areas of the general economy of recipient countries which A.I.D. would otherwise not be able to affect.

Recommendation No. 6 -- "Require that A.I.D. management fully consider evaluation and audit reports (on prior performance) before extending or awarding a new grant or contract."

Comment -- Prior performance is always considered by A.I.D. in the award of contracts and grants. Evaluation and audit reports are an important part of A.I.D. program management policy and are used as an integral part of the Agency's decision-making process in the review and approval of projects. The Federal Procurement Regulations (FPR) require that "purchase shall be made only from, and contracts shall be awarded only to, responsible prospective contractors." (See Federal Procurement Regulations, Section 1-1. 1202.) Among the tests for determining contractor responsibility is "a satisfactory record of performance." (See Federal Procurement

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Regulations, Section 1-1.1203.1(c).) Contractors who are or who have been seriously deficient in current or recent contract performance may be presumed to be unable to meet the requirement.

The Contracting Officer is required to make a determination of contractor responsibility each time a contract is awarded.

In connection with grants, the Grant Handbook states "the grant document cannot insure that an inept grantee will effectively handle a program if he does not have the necessary technical and management resources and capabilities." (A.I.D. Grant Handbook 13, Section 1A, para 5.) The Handbook further states that "prudent management in the case of a grant normally requires ... ascertainment of technical and managerial compliance and financial responsibility of prospective grantees." (A.I.D. Grant Handbook 13, Section 1B, 2b)

In considering follow-on grants, and even new grants, A.I.D. always evaluates the record or past performance of the grantee, including all audit reports and any performance evaluation data available. The final decision to award or not to award, or to extend, is a best judgment, after all the factors pro and con have been considered.