

PD-ABM-347

**Regional Inspector General for Audit  
Frankfurt**

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**Audit of the Private Voluntary Organization  
Humanitarian/Development Initiatives Project  
(Project No. 180-0032)**

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**Report No. 8-180-96-002  
December 4, 1995**





OFFICE OF THE REGIONAL INSPECTOR GENERAL  
AMERICAN CONSULATE GENERAL FRANKFURT  
21 SIESMAYERSTRASSE  
60323 FRANKFURT AM MAIN  
GERMANY

U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

December 4, 1995

**MEMORANDUM**

TO: ENI/HR/EHA, A. Dennis Long

FROM: RIG/A/Frankfurt, John P. Competello 

SUBJECT: Audit of the Private Voluntary Organization  
Humanitarian/Development Initiatives Project (180-0032),  
(Audit Report No. 8-180-96-002)

This is our final report on the subject audit. We considered your comments on the draft of this report and included them at Appendix III. The report contains one recommendation which is closed upon issuance of this report.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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**BACKGROUND**

In response to the urgent humanitarian needs of Central and Eastern Europe after the collapse of communist regimes in 1989 and 1990, USAID launched the Private Voluntary Organization (PVO) Humanitarian/Development Initiatives Project (180-0032) in January 1991. Key elements of the project included:

- providing highly visible, targeted developmental assistance which meets immediate needs;
- supporting field programs which provide direct development assistance to targeted populations such as, but not limited to, infants and children, the elderly and handicapped and unemployed in areas/regions where development needs are greatest; and,
- addressing longer term objectives by enhancing indigenous capabilities to provide humanitarian/development assistance

partly through the institutional development of local non-governmental organizations (NGOs).

From January 1991 through August 1994, a total of 27 grants, totalling over \$38.3 million were made. Twenty-one of these grants contained developmental aspects, i.e., training programs, rehabilitation programs for handicapped people, and professional/business skills development. The remaining six grants provided humanitarian assistance in the form of food, medical supplies and equipment, medical treatment, and clothing. The audit focused on the grants with developmental aspects in order to determine results obtained and the sustainability of such results.

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## **AUDIT OBJECTIVE**

As part of its fiscal year 1995 audit plan, the Office of the Regional Inspector General for Audit/Bonn reviewed activities initiated under the Bureau for Europe and New Independent States' Private Voluntary Organization (PVO) Humanitarian/Development Initiatives Project (No. 180-0032) to answer the following question:

- **Have USAID Funded Developmental Activities Produced Sustainable Results Leading to Achievement of the Project's Purposes?**

Appendix I contains a discussion of the scope and methodology for this audit.

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## **AUDIT FINDINGS**

Considerable progress has been made in meeting the project's purposes. USPVOs provided visible, targeted developmental assistance which met immediate needs. Project activities reviewed provided assistance to targeted populations in areas deemed to have the greatest need. USPVOs had identified local NGOs and, in most cases, enhanced the capabilities of the indigenous organizations to continue their programs after the project ends. In addition, most USPVOs had identified funding sources to replace the USAID assistance. However, we found that the financial viability of activities initiated under two grants is questionable. The audit also identified several political, economic, and legal constraints which may ultimately limit achievement of the project's purposes.

## **Developmental Activities Have Achieved Results**

Activities audited under the PVO Humanitarian/Development Initiatives Project have achieved noteworthy results. We reviewed 15 of the 21 developmental activities initiated under the project (see Appendix II). All of the 15 activities reviewed had delivered developmental assistance to target populations, including: the unemployed, the elderly, the handicapped, youth, women, and small businesses.

Eight of the activities addressed the needs of the unemployed, elderly, handicapped, and youth. Assistance provided under the grants included medical care for the elderly, rehabilitation and alternative living centers for the handicapped, and employment training and counseling for the unemployed. For example:

- Opportunities Industrialization Centers International Inc., (OIL) received \$1.5 million to reduce unemployment through enterprise development, appropriate training, and employment services in Poland. Activities include training for unemployed, handicapped, and women; a business advisory service; and computer training courses. As of July 1995, OIL had conducted over 300 courses with nearly 9,000 participants.

Three of the activities provided preventive medical assistance to at-risk populations; i.e., AIDS education and prevention, prenatal care, immunizations, training of health care professionals, etc. For example:

- Project HOPE's goal was to improve the health status of infants, children, and women in the Czech Republic, Hungary, Poland, and Slovakia by enhancing indigenous capabilities to provide health services. Their \$2 million effort concentrated on strengthening nursing education through the institution of baccalaureate level training programs; establishing new strategies on nursing care through the creation of clinical demonstration units in the Czech Republic, Hungary, and Poland; providing care to high risk newborns and women; and establishing biomedical engineering facilities. Project HOPE's nursing curriculum, educational materials, management courses and training seminars included over 1,200 participants. These activities have been incorporated into government institutions, i.e., medical schools and hospitals, and will continue under government direction.

Four of the activities reviewed targeted the development of small to medium businesses. For example:

- Aid to Artisans (ATA) received a \$729,000 grant to assist Hungarian artisans in developing a product line of market-sensitive craft products and to establish a market link between Hungarian artisan cooperatives and the U.S. import market. ATA's goal was to create sustainable microenterprises in Hungarian craft villages and facilitate their contact with American businesses. In addition to sponsoring exhibitions for Hungarian artisans at U.S. gift fairs, ATA provided three handicraft export training seminars. Seminar topics included: business and information sources in Hungary, legal issues, shipping options and services in Hungary, and export financing options. Their efforts generated over \$1 million in direct revenues to approximately 50 Hungarian artisan enterprises.

### **Capacities of Local Institutions Developed**

The original design of the project was to provide humanitarian/development assistance to target populations of the former communist countries as quickly as possible and did not include continuation of the activities as an objective. However, once the immediate and urgent needs of the target populations were addressed, the USPVOs took steps to better ensure the activities would continue by developing the capabilities of local institutions. Some USPVOs took steps to create new local NGOs to carry on activities while others worked with existing NGOs. This is in line with USAID's March 1994 "**Strategies for Sustainable Development**". This doctrine states that the fundamental thrust of USAID's programs will aim at *"building indigenous capacity, enhancing participation, and encouraging accountability, transparency, decentralization, and the empowerment of communities and individuals."*

Under ten of the activities, USPVOs created local institutions to ensure continuation of their activities. For example:

- Operation Blessing International Relief and Development Corporation (OBIRD) received \$196,000 to increase the availability of uncontaminated water through the development of new wells and updating existing wells in Romania. A non-profit organization, East LifeWater was created to do the drilling and installation work. Although this grant was originally designed to provide humanitarian assistance, OBIRD

refocused its efforts to providing developmental assistance to the newly established organization. To ensure continuation of operations after USAID funds expired, a for-profit division was created which services the water pumps East LifeWater installs as well as pumps installed by other Romanian companies. At the time of the audit, the for-profit division was reportedly generating approximately \$40,000 per month in revenues.

- Project Concern International (PCI) received \$2 million to reduce the suffering of children in institutions for the handicapped in Romania and decrease the number of children incorrectly placed in institutions. PCI created a Transitional Living Center which assists formerly institutionalized, handicapped adolescents with rehabilitation, employment, and integration back into the community. A local NGO intends to continue the activity with funding provided by the local municipality.

### **Identification of Alternative Funding Sources**

Funding to replace the USAID assistance is critical to ensuring continuation of activities initiated under the project. USPVOs under 13 of the 15 activities we reviewed had taken steps to identify alternative funding sources. These included obtaining funding commitments from host governments, local NGOs, and other international donors; creating revenue generating activities; and charging fees for services. For example:

- The American Jewish Joint Distribution Committee received funding from the Soros Foundation to conduct interdisciplinary medical training in the Hungarian countryside.
- The Boy Scouts program of the Polish Young Men's Christian Association (YMCA) receives 100 percent of its funding from the government.
- Opportunities Industrialization Centers initiated a fee schedule for services rendered. They also receive funding from the World Bank, private donors, and the Polish Ministry of Labor.

## **Future Financial Viability of Activities Questionable**

Although local organizations had been identified to continue activities after USAID funding ends for most grants reviewed, alternative funding arrangements to supplant USAID assistance had not been made for activities under two grants.

The Citizens' Democracy Corps, Inc. (CDC) is providing American volunteers to foreign businesses and institutions to assist them in strengthening the emerging democratic institutions and free market economies of Eastern Europe. Interviews with assistance recipients revealed their satisfaction with the help provided and willingness to sponsor CDC volunteers in the future. In Poland for example, a computer software company hired their advisor as business development director; and a bank sponsored a total of six CDC consultants working in different areas.

CDC's funding was scheduled to end in September 1995. The Budapest office had already ceased operations. Although financial sustainability was not an objective of the CDC grant, CDC's Warsaw office, under a new Country Director, had developed a plan for financial sustainability. The plan includes collaborating with other international organizations and receiving project referrals from them. We are concerned, however, about the future of CDC's office in Prague, Czech Republic (CDC/Prague).

Although the Prague office had been told that USAID funding would not be continued, it had not addressed the issue of financial sustainability. The Czech Country Director and staff stated that the funding issues would be resolved by CDC headquarters in Washington, D.C. and that they were tasked to simply continue "business as usual". Consequently, they had not initiated downsizing operations in preparation for the grant's termination. It is highly probable that CDC/Prague operations will not continue. Therefore, the majority of the activities initiated in the Czech Republic under the \$4.4 million grant to CDC will be terminated when USAID funding ends.

Technoserve, Inc. received a \$1,390,000 grant to "establish a financially sustainable and replicable local institution which will serve as a support and service center as well as a catalyst for agriculturally related enterprise development in the Tarnobrzeg District of Poland." It established the Enterprise Promotion and Support Center (EPSC) which provides business management training and consulting services to small businesses. The center specializes in creating business plans for companies seeking bank loans and in fact, the majority of their clients are referrals from the local banks. During our site visit in July 1995 we were impressed with the

quality of assistance EPSC was providing. We visited a dairy for which EPSC had prepared a business plan. The plant manager praised the quality of the plan, and stated he intended to use EPSC to develop a second business plan to further expand his business.

However, the grant expired the month preceding our visit, and EPSC had not identified alternative funding sources to replace USAID assistance. Their plan for financial sustainability was to establish a brokerage service which buys commodities from local farmers and sells them to commercial users. This scheme had been tried before and had resulted in a net loss of over \$100,000. The brokerage service will not provide the immediate funds needed to continue their activities. However, this idea is the cornerstone of their financial sustainability plan. Technoserve and EPSC need to prepare a business plan with realistic inputs concerning financial viability.

We believe CDC/Prague and Technoserve are doing important work. Their efforts were lauded by beneficiaries we interviewed. Nevertheless, without plans to ensure financial viability, their activities may not continue after USAID funding ends. Such plans should identify alternative funding sources to the USAID assistance.

**Recommendation No 1: We recommend that the Bureau for Europe and the New Independent States, in consultation with USAID/Prague and USAID/Warsaw, develop plans to assist CDC/Prague and Technoserve in identifying alternative funding sources to the USAID assistance to better ensure that program activities continue after USAID funding ends.**

### **Management Comments and Our Evaluation**

Commenting on the draft audit report, ENI Bureau management stated that it shares our concern that USAID programs continue on their own after Agency funding ends. However, management said that it could not develop alternative funding plans for CDC/Prague and Technoserve in Poland for three reasons. First, management stated that it is pleased that local NGOs were created under the program, some activities were kept alive by US-based PVOs, and other activities became financially sustainable from local resources. However, since sustainability was not among the original objectives of the project, management does not feel obligated to establish or meet such an objective now. Second, according to management CDC-type activities are no longer necessary in the Czech Republic because of the general prosperity that exists in the country. In addition, CDC/Prague was scheduled to close when USAID funding expired on September 30, 1995. Third, management stated that the overall program is ending; therefore, the

Bureau can not afford to expend scarce staff resources on what has become a low priority. Management reported, however, that Technoserve has received grants from two private foundations plus a 9-month grant of \$110,000 from USAID/Warsaw for institution strengthening. In addition, Technoserve is aware of the need to seek local resources to achieve financial viability and is working toward that end.

Based on management's response, Recommendation No. 1 is closed upon issuance of this report. The intent of the recommendation is to better ensure that activities conducted by CDC/Prague and Technoserve continue after USAID funding ends. We accept management's assertion that activities conducted by CDC/Prague are no longer needed. Therefore, additional efforts to ensure sustainability are not necessary. With reference to Technoserve, recent grants should support the organization's activities until additional funding sources are identified, thus meeting the intent of the audit recommendation.

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## **OTHER MATTERS**

Despite the project's success, the audit noted several significant constraints to sustainability of project activities. Political, economic, and legal constraints must be overcome before the sustainability of several activities is guaranteed. Removal of these constraints may be beyond the control of this project, USPVOs, and USAID.

**Nongovernmental organizations were affected by legislation, or lack thereof, concerning the rights and roles of NGOs.** Private property had been confiscated during the communist regimes. The YMCAs in Hungary and Poland are awaiting legislation that directs the return of their property. The return of the property will be a plus for the NGOs, however, it will also necessitate additional funding for renovations and maintenance. In the Czech Republic, lack of legislation defining the rights and legal status of handicapped people was hindering the efforts of NGOs attempting to set up alternative living arrangements. NGOs we contacted did not know if they would qualify for tax breaks and government funding. They were particularly concerned about whether fees paid by the State to institutionalized individuals could be used to support nongovernmental, independent living arrangements.

**Many NGOs interviewed noted social constraints that negatively affected their operations.** Project HOPE officials noted that the condescending attitude of doctors toward nurses was a major hurdle in their work. HOPE's activities included increasing nurses' training to a

baccalaureate level curriculum and incorporating nurses into its multidisciplinary medical teams in the field. Prior to HOPE's programs, nurses' roles were task oriented. They were given limited responsibilities and were not encouraged to be part of the medical team. HOPE attempts to trigger an attitude change through their activities. YMCA/Czech Republic officials felt there was minimal support for Christian organizations and a lack of volunteerism in their country. A Communist regime mandate was to institutionalize handicapped individuals without hope of integration into "normal" society. Several of the NGOs participating in the project must overcome negative, uninformed attitudes toward the handicapped in order to promote acceptance and integration of handicapped individuals back into society.

**NGOs in the project also experienced financial constraints to success.**

The YMCA in the Czech Republic had to take out a large mortgage for renovation and maintenance costs once their property which had been confiscated by the communists was returned to them. Their fund raising efforts must cover their loan payments as well as program costs. Revenue producing income is taxed in the Czech Republic. Therefore, the YMCA also has the disadvantage of having to pay taxes on the income it receives from the organizations which rent offices in its building. In Hungary and other East European countries, there is a lack of available credit. Also, nonprofit activities, i.e., purchases of supplies and equipment, are subject to a value-added tax of up to twenty-five percent with no exemptions for NGOs. Additionally, NGOs must pay income tax and donors are taxed on their contributions as well.

**Management Comments and Our Evaluation**

In comments on the draft report, management indicated that activities funded under the NGO Development Project—a follow-on to the Private Voluntary Organization Humanitarian/Development Initiatives Project—may begin to address some of the concerns raised above.

**SCOPE AND  
METHODOLOGY**

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We audited activities under the Bureau for Europe and New Independent States' (ENI) Private Voluntary Organization (PVO) Humanitarian/Development Initiatives Project (180-0032). The audit was conducted in accordance with generally accepted government auditing standards. We were provided an acceptable audit representation letter. Audit work was conducted from March 27, 1995 through September 7, 1995 and covered obligations of about \$22 million of the \$38.3 million awarded under the Projects 27 grants as of March 31, 1995. Twenty-one of the grants had developmental aspects. The other six grants provided humanitarian assistance in the form of food, medical supplies and equipment, medical treatment, and clothing.

We audited 15 of the 21 grants with developmental aspects in the following five countries: Czech Republic, Hungary, Poland, Romania, and Slovakia. We did not review activities in Albania, Bosnia-Herzegovina, Bulgaria, and Croatia. Although sustainability was not an objective when the project was initiated, we audited the 15 judgmentally selected grants to determine whether USAID-funded activities would produced sustainable results leading to achievement of the project's primary purposes. Audit work included visiting USPVO field sites to observe project activities, and reviewing progress and evaluation reports submitted by the USPVOs to USAID to determine if reporting complied with grant-agreement requirements. The audit also included interviews with:

- ENI Bureau project officers responsible for overall management of the project;
- USAID/Representatives in the countries visited and their project specialists who have on-site monitoring responsibilities; and,

**APPENDIX I**  
**PAGE 2 OF 2**

- USPVO and/or local NGO officials responsible for grant activities to obtain their views on the effectiveness and impact of the activities, problems encountered, and whether the local NGO and/or grant activities could continue after USAID funding ended.

We relied on unaudited records for project expenditure and authorization data.

We hired independent translators in Budapest, Hungary, Warsaw, Poland and Bucharest, Romania. In all other instances, we used as translators foreign national employees of the offices of USAID Representatives who accompanied us on site visits.

**ACTIVITIES UNDER THE PVO HUMANITARIAN/DEVELOPMENT INITIATIVES PROJECT WITH DEVELOPMENTAL ASPECTS**

SELECTED FOR REVIEW		USPVO	ACTIVITY TYPE	COUNTRY	GRANT AMOUNT	GRANT PERIOD	CONTINUED BY
X	1	AID TO ARTISANS	C	HUNGARY	\$729,161	4/91-4/95	EXISTING INSTITUTION
X	2	AMERICAN JEWISH JOINT DISTRIBUTION COMMITTEE, INC	A	CZECH, HUNGARY	\$1,649,000	4/91-12/95	CREATED NGO, EXISTING INSTITUTION
	3	AMERICAN ORT FOUNDATION	A	ALBANIA	\$4,578,112	11/91-1/97	
	4	CHILDHOPE USA	A	ALBANIA	\$100,000	3/94-3/97	
X	5	CITIZENS' DEMOCRACY CORPS	C	POLAND, CZECH, ROMANIA, BULGARIA	\$4,356,668	6/91-9/95	CREATED NGO
X	6	DELPHI INTERNATIONAL	A	POLAND	\$610,151	12/91-6/95	EXISTING INSTITUTION
X	7	FEED THE CHILDREN	A	ROMANIA	\$1,580,000	4/91-12/96	CREATED NGO
X	8	HOLT INTERNATIONAL CHILDREN'S SERVICES	B	ROMANIA	\$1,652,570	7/92-3/96	CREATED NGO
	9	INTERNATIONAL EYE FOUNDATION	B	BULGARIA	\$511,547	4/91-3/94	
	10	INTERNATIONAL RESCUE COMMITTEE	A	CROATIA, BOSNIA-HERZEGOVINIA	\$6,000,000	6/93-6/96	
X	11	NATIONAL TELEPHONE COOPERATIVE ASSOCIATION	C	BULGARIA, POLAND	\$740,687	4/91-3/96	CREATED NGO

ACTIVITY TYPES:    A    ASSISTANCE TO ELDERLY, HANDICAPPED, UNEMPLOYED AND YOUTH  
                               B    PREVENTIVE MEDICAL ASSISTANCE  
                               C    DEVELOPMENT OF SMALL TO MEDIUM BUSINESSES

12

SELECTED FOR REVIEW		USPVO	ACTIVITY TYPE	COUNTRY	GRANT AMOUNT	GRANT PERIOD	CONTINUED BY
X	12	OPERATION BLESSING INTERNATIONAL RELIEF	B	ROMANIA	\$196,000	5/91-5/93	CREATED NGO
X	13	OPPORTUNITIES INDUSTRIALIZATION CENTERS	A	POLAND	\$1,518,742	9/92-9/95	CREATED NGO
	14	POLISH AMERICAN CONGRESS CHARITABLE FOUNDATION	A	POLAND	\$200,000	2/94-4/95	
X	15	PROJECT CONCERN INTERNATIONAL	A	ROMANIA	\$2,000,000	4/91-12/96	CREATED NGO, EXISTING INSTITUTION
X	16	PROJECT HOPE	B	POLAND, CZECH, SLOVAKIA, HUNGARY	\$2,000,000	4/91-3/93	EXISTING INSTITUTION
X	17	SUPPORT CENTERS OF AMERICA	A	ROMANIA	\$807,481	8/92-12/95	EXISTING INSTITUTION
X	18	TECHNOSERVE, INC.	C	POLAND	\$1,390,000	4/91-6/95	CREATED NGO
	19	WORLD ASSOCIATION FOR CHILDREN AND PARENTS	A	ROMANIA	\$280,600	9/93-12/95	
X	20	WORLD VISION RELIEF AND DEVELOPMENT, INC.	A	ROMANIA	\$1,651,000	6/91-9/96	CREATED NGO
X	21	YOUNG MEN'S CHRISTIAN ASSOCIATION	A	CZECH, BULGARIA POLAND, HUNGARY	\$1,500,000	4/91-4/94	EXISTING INSTITUTIONS

ACTIVITY TYPES: A ASSISTANCE TO ELDERLY, HANDICAPPED, UNEMPLOYED AND YOUTH  
 B PREVENTIVE MEDICAL ASSISTANCE  
 C DEVELOPMENT OF SMALL TO MEDIUM BUSINESSES

13



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

NOV - 9 1995

MEMORANDUM

TO:           OIG/Frankfurt, John Competello

FROM:         DAA/ENI, Don Pressley ~~DP~~

THRU:         ENI/FS, Thomas Clarkson TC

SUBJECT:     Draft Report on the Audit of the Private Voluntary  
              Organization Humanitarian/Development Initiatives  
              Project (180-0032)

We have reviewed the subject draft report, dated October 2, 1995. The report's single recommendation follows:

Recommendation No 1: We recommend that the Bureau for Europe and the New Independent States, in consultation with USAID/Bucharest and USAID/Prague, develop a plan to assist TechnoServe/ESPC and CDC/Prague in identifying alternative funding sources to the USAID assistance to better assure that program activities continue after USAID funding ends.

Response to the Recommendation:

ENI management has given serious consideration to the recommendation. However, Bureau management has decided that carrying out the recommendation would not best serve Agency goals. The reasons for that decision are summarized below. The Bureau is open to further discussions on that point if OIG/Frankfurt so desires. The Bureau requests that OIG consider the reasons for the Bureau's decision and concur with its request to close the recommendation upon issuance.

In arriving at its decision, ENI reviewed the history of the program and consulted with the involved overseas Missions. First of all, this activity began shortly after the fall of the Berlin Wall. It had two primary goals. The first goal, political in nature, was to establish a United States presence as quickly as possible. The second goal, developmental but limited in scope, was for USAID and the U.S. PVO community to acquire familiarity with the countries and events, gain a better understanding of the needs toward which future programs might be directed, and undertake some immediate and limited activities to

address needs that could be quickly identified. Therefore, unlike most USAID programs, sustainability of the activities was not a requirement. As a result, the original RFA and resulting cooperative agreements competed and negotiated under it did not require that the participating PVOs create local NGOs, nor work country programs toward financial sustainability. Nonetheless, we are pleased to note that in many cases local NGOs were created. In others, the US-based PVO kept the original activity alive and some activities became financially sustainable from local resources. This was due to strength in the original design not directly related to sustainability, the choice of capable US PVOs as partners, and the dedication and talent of the local staffs.

Because sustainability was not among the original objectives of the program the Bureau does not feel obliged to establish or meet such an objective now.

Second, ENI/HR/EHA has learned that CDC/Prague's office is now closed as USAID/W funding expired September 30, 1995, and the Prague Mission states that with the general prosperity that exists in the Czech Republic, CDC-type assistance permanently based in Prague is no longer required.

Third, the program is ending, and, with the addition of programs worth more than \$2.8 billion to ENI's program management burden since the inception of the program under audit, ENI cannot afford to expend scarce staff resources to develop a sustainability plan for what is now a low priority program. We can report that, according to USAID/Warsaw, TechnoServe has received two private foundation grants, plus a \$110,000 grant for institution strengthening from Warsaw Mission's AE&PS funds. The duration of this grant is nine months. TechnoServe is aware of the need to seek local resources to keep the ESPC center financially viable, and it is working to that end. The Bureau regrets that it is only able to provide limited assistance in this area, but, given existing resources and workload, it cannot responsibly do so.

In summary, while the Bureau shares the OIG concern that USAID programs in general and this one in particular continue on their own, it cannot develop an alternative funding plan in this case because sustainability was not key to the original design, the program is no longer needed in some countries, is ending in others and the Bureau lacks the staff to address what is now a lower priority issue. The Bureau requests OIG to consider closing the recommendation for these reasons.

#### Response to "Other Matters"

Under "Other Matters", the report covered three points that impacted the project that were perhaps beyond the control of the project, the USPVOs and USAID. The points were that:

- 1) "Nongovernmental organizations were affected by

legislation, or lack thereof, concerning the rights and roles of NGOs;

2) "Many NGOs interviewed noted social constraints that negatively affected their operations; and

3) "NGOs in the project also experienced financial constraints to success."

The follow-on project in 180-0032, the NGO Development Project that supports Democracy Networks and the development of public service NGOs, may begin to address the concerns raised by the older PVOs.

For point #1 above, the International Center for Not-for-Profit Law (INCL) has the role of working with government agencies to address the legal situation. INCL's mandate is to inform parliaments, members of executive bodies, and judges about not-for-profit organizations. INCL's activities attempt to identify a not-for-profit's juridical characteristics, explain how a not-for-profit sector can be an asset to the body politic and the freer market system, articulate the rationale for tax exemption, research former laws if necessary for culturally appropriate examples, provide realistic examples that exist elsewhere, and attempt to clarify the concept for the general public. This work has already begun. Mid-term evaluations should provide USAID with some examples of progress.

For point #2, while the work in both segments of 180-0032 is aware of the social constraints found in the form of prejudice against ethnic groups (Gypsies for example), religious groups, and women, the US PVOs and newly established local NGOs have been guided by the USAID Standard Provisions attached to each cooperative agreement that repudiate various forms of discrimination. While not specifically delineated, the expatriate staffers as well as local staff members often exemplified democratic procedures and decision making. Additionally, the follow on NGO Development Project provided for institution strengthening through technical assistance and training managed by the National Forum Foundation (NFF). It is now NFF's responsibility to instill democratic ideals of fairness in the internal workings of local NGOs as well as champion those ideals in the public policy arena. Again, a mid-term evaluation should provide USAID with examples of how these acts of prejudice are being addressed, and how "traditional" mind sets are being changed.

For point #3, one of the best attended workshops in institution building throughout the region has addressed developing additional resources leading to financial independence. In institution strengthening workshops, Support Centers International (SCI) in Romania and Opportunities Industrialization Centers International (OICI) in Poland have routinely emphasized cultivating local resources for financial

sustainability, where to find them, and how to generate them. Both have also introduced the idea of voluntarism with some success. Giving to non-profits as a rule has not been a well-developed tradition in the CEE region outside token giving to churches. Some notable exceptions do exist, however, such as the donations from Soros Foundation, and other examples of philanthropy. However, as this region begins to prosper economically, the local NGOs can expect to build a stronger financial base.

Corrections to certain dates which have changed since the issuance of the draft report are attached to this response.

Points to Consider in Appendix II of the Report:

In Appendix II, some of the expiration dates have changed since the beginning of the audit exercise:

- for the American Jewish Joint Distribution Committee (JDC) December 31, 1995, not September 30, 1995;
- for Feed the Children (FTC) December 31, 1996 to accommodate requirements under Romanian law, not July 31 1995;
- for Holt International Children's Services' March 31, 1996, not July 31, 1995;
- for Opportunities Industrialization Centers International (OICI) September 30, 1995, not June 30, 1995;
- for Polish American Congress Charitable Foundation (PACCF) April 30, 1995, not November 30, 1994;
- for World Association for Children and Parents (WACAP) December 31, 1995;
- for World Vision (WVRD) September 30, 1996, not July 24, 1995; and
- for YMCA September 30, 1994, not September 30, 1993.

Additional corrections for projects visited in Romania and mentioned in the text but not included in the chart entitled, "Activities under the PVO Humanitarian/Development Initiatives Project with Developmental Aspects", include: Project Concern International, Operation Blessing, and World Vision Relief and Development. USAID/Bucharest says that the audit team did not visit CDC in Romania.

The Bureau appreciates the work carried out by the OIG in its review of this program.

17