BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The President Inter-American Foundation

Inter-American Foundation: Alternative To Traditional Foreign Assistance

In 1969, the Congress created the Inter-American Foundation as an experimental program providing new direction and emphasis for U.S. aid to Latin America. It is characterized by (1) independence from United States and host governments' short-term foreign policy objectives, (2) responsiveness to the initiatives of Latin Americans, and (3) non-intervention in the affairs of groups supported.

Although a number of projects which GAO reviewed have met their objectives, some projects are having problems doing so. However, these problems could be overcome if monitoring activities were more supportive of grantee efforts. The Foundation, its grantees, and other organizations supporting development activities could benefit if their activities and experiences were shared more systematically.

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UNITED STATES GENERAL ACCOUNTING OFFICE WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

E-204006

Mr. Peter D. Bell President, Inter-American Foundation

Dear Mr. Bell:

Enclosed is our report concerning the Inter-American Foundation's program in Latin America.

This report contains recommendations to you on pages 11, 17 and 26. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal Agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the Agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to appropriate congressional committees.

Sincerely yours,

Frank C. Conahan

Director

Enclosure



GENERAL ACCOUNTING OFFICE REPORT TO THE PRESIDENT, INTER-AMERICAN FOUNDATION INTER-AMERICAN FOUNDATION: ALTERNATIVE TO TRADITIONAL FOREIGN ASSISTANCE

DIGEST

Within its broad legislative authorization, the Inter-American Foundation (IAF) has implemented a program designed to respond to the development efforts of Latin Americans rather than prescribe solutions for their needs. IAF's mode of operation is further characterized by (1) independence from U.S. and host government short-term foreign policy objectives and (2) non-intervention in the project activities of Latin American groups supported.

In accordance with both legislative and internal policy emphasis, IAF has primarily supported private indigenous groups in Latin America. Some support has been given in a few instances to host government entities.

From fiscal year 1971, through fiscal year 1980, IAF expended a total of \$134 million. During this period it awarded 965 grants ranging in size from a few hundred dollars to \$3.16 million. Approximately 48 percent of all grants were less than \$35,000.

WHY THE REVIEW WAS MADE

IAF was created to be an innovative, experimental alternative to traditional U.S. foreign assistance programs for Latin America.

It has now been in operation for over 10 years and because the nature and strategy of U.S. foreign assistance programs are again under close scrutiny in the Congress and the executive branch, GAO believed an in-depth review of IAF activities at this time was warranted.

RESULTS ATTAINED BY IAF PROJECTS

Projects which IAF funds have a good chance of meeting some or all of their grant objectives. Of the 66 projects reviewed by GAO, 29 had met or were meeting their objectives, 25 had partially met or were partially meeting their

GAO/ID-82-16

objectives, and 12 had not met their objectives. Problems included

- --project goals and objectives were sometimes broad, overly ambitious, and difficult to achieve, and
- --grant funds were not adequately accounted for or controlled resulting in misuse and other improperties. (See p. 7.)

MONITORING COULD BE MORE SUPPORTIVE OF GRANTEE EFFORTS

IAF does not attempt to direct the implementation of projects. Its monitoring policy consists of visits to grantees of active projects by IAF representatives at least once a year, requirements for program and financial reports from all grantees, and independent audits of grants over \$35,000.

IAF grantees were generally appreciative of the freedom and autonomy they had under IAF's management style. Some, however, were having problems or wanted assistance from IAF.

A review of IAF records showed that

- --IAF staff engage in many activities in relatively short periods of time during country visits,
- --most grantees were visited to some extent by IAF, but visits for purposes of monitoring appeared to follow no discernible pattern to ensure full, timely coverage of projects, and
- --reports required were often delinquent.

GAO believes that monitoring activities could be more effective and supportive of grantee efforts if visits were more timely and if IAF played a more active, constructive role in helping grantees facing bottlenecks to identify possible options and sources of help. (See p. 12.)

COORDINATION AND DISSEMINATION EFFORTS COULD BE MORE PRODUCTIVE

IAF is one of many governmental and nongovernmental organizations supporting development efforts in Latin America and the
Caribbean. Coordination with these organizations, however, has not been regular or
systematic. Further, because IAF emphasizes
support of experimental, innovative projects,
dissemination of its experiences, inside and
outside of the organization, is a key factor to
improving the effectiveness of its own program
and providing the maximum benefits possible
from its development efforts. Dissemination
efforts, however, have been generally irregular
and limited. To its credit, IAF has recognized
this and recent improvements have been made.

IAF, its grantees, and organizations supporting development efforts could benefit from more active coordination and dissemination efforts by IAF. IAF could improve the skills of its staff and the quality of its program through increased sharing of experiences and activities, inside and outside of IAF. Grantees could have access, directly or indirectly, to more opportunities and experiences.

Organizations could better complement each other's assistance activities, thus providing overall programs which are more responsive to the needs, and supportive of the efforts, of potential grantees. GAO believes IAF could improve the impact of its program through active regular coordination and broad, systematic dissemination efforts. (See p. 19.)

RECOMMENDATIONS

GAO recommends that the President of the Inter-American Foundation direct the staff to

- --require that the grantees develop specific objectives which the staff believe are attainable and
- --increase attention to the use of grant funds at the project level to verify application of funds in accordance with terms agreed to.

Further, GAO recommends that the President, IAF

- --clearly define a monitoring policy which calls for the staff representatives to
 (1) carefully plan monitoring activities to provide coverage of all active grants to ensure timely identification of problems;
 (2) play an active, constructive role assisting grantees, who are faced with problems hindering project progress, to identify possible options or sources of help; and
 (3) regularly check, during country visits, on grantees who are overdue in fulfilling reporting requirements;
- --establish explicit policy guidelines and operating procedures for an active coordination program, setting forth the responsibilities expected at each staffing level; and
- --establish a systematic approach to information dissemination so that valuable experiences are effectively communicated within IAF and to interested agencies, organizations, and individuals.

AGENCY COMMENTS

IAF said that it believes the report accurately describes its purposes, operating style and role in U.S. foreign assistance. IAF agreed, in essence, with the report conclusions and recommendations which it believes correlate with some of its own concerns as well as ongoing efforts to improve.

It did note, however, that fully pursuing all the recommendations will place new demands on limited staff resources and involve increased overhead expenses. (See app. I.)

GAO agrees but judicious allocation of staff resources among competing objectives should avoid increased expenses. GAO believes that improvements can be achieved through more efficient use of staff resources. (See p. 26.)

CONTENTS

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION IAF: an overview IAF approach to development assistance Objectives, scope, and methodology	1 1 3 4
2	RESULTS OF IAF PROJECTS Results of review of IAF projects Examples of problems limiting project results Conclusions and recommendations Agency comments	7 7 7 11 11
3	MONITORING COULD BETTER SUPPORT GRANTEES The project selection and review process In-country visits and reporting activities have limited utility Conclusions and recommendations Agency comments	12 12 15 17 18
4	COORDINATION AND DISSEMINATION EFFORTS COULD BE MORE PRODUCTIVE Improved coordination needed Dissemination should be systematically broadened Conclusions and recommendations Agency comments and our response	19 19 22 25 26
5	SIMILARITIES IN AID AND IAF ASSISTANCE New mandates IAF and AID programs can complement each other Conclusions	27 27 29 30
APPENDIX		
I	Letter from Inter-American Foundation dated May 14, 1982.	31
II	IAF's fiscal year 1980 and unaudited fiscal year 1981 financial statements	38

ABBREVIATIONS

IAF	Inter-American Foundation
IDB	Inter-American Development Bank
AID	Agency for International Development
OAS	Organization of American States

CHAPTER 1

INTRODUCTION

With the award of its first foreign assistance grant in the fall of 1971, the Inter-American Foundation (IAF) launched the U.S. Government into a new and innovative program to support the development efforts of Latin Americans.

To help rectify identified shortcomings of previous U.S. programs for Latin America, in 1969, the House Committee on Foreign Affairs recommended that IAF be created as a program to provide a new direction and a new emphasis for U.S. assistance. The committee believed that

- --during the previous 8 years, too little U.S. assistance had reached the masses of the Latin American people or made a visible impact on their daily lives;
- --social development goals were not being achieved in any substantial, meaningful sense; and
- --although Alliance for Progress Programs operating at the government-to-government level had successfully promoted the industrial and economic growth of Latin America, they had proved much less effective in responding to the requirements of social and civic change.

Because of committee efforts, 22 U.S.C. 290 f was passed in 1969 which created IAF. In contrast to traditional large-scale, government-to-government, foreign assistance programs, IAF was established as a non-profit government corporation authorized, among other things, to provide assistance directly to Latin American groups.

IAF: AN OVERVIEW

Legislative authorization

IAF has broad legislative authority. The legislation states that, primarily by cooperating with private, regional, and international organizations, IAF is to

- --strengthen the bonds of friendship and understanding among the people of this hemisphere;
- --support self-help efforts to increase the opportunities for individual development;
- --stimulate and assist effective and increased participation of people in development; and

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--encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of individual nations of the Western Hemisphere.

IAF must coordinate its Latin American projects with

"* * *the developmental activities in the Western Hemisphere of the various organs of the Organization of American States, the United States Government, international organizations, and other entities engaged in promoting social and economic development."

The legislation, also states that IAF shall place primary emphasis on

- --expanded educational opportunities;
- -- food production and agricultural development;
- --improved environmental conditions, health, maternal and child care, family planning, housing, free trade, union development; and
- --meeting other social and economic needs.

IAF may also

- --enter into agreements with domestic or foreign individuals, organizations or governments,
- --accept money or bequests from private sources, and
- -- make loans and grants.

Sources of IAF funds

IAF is essentially funded by congressional appropriations and, since 1974, monies in the Social Progress Trust Fund. The Inter-American Development Bank administers the Trust Fund, which holds, in local currencies, repayments from U.S. Government loans made to Latin American and Caribbean countries under the Alliance for Progress. Through 3-year agreements between IAF and the Bank, trust fund monies are made available only for grants for specific types of projects and only in the countries for which local currencies are available in the trust fund.

From fiscal year 1971 through fiscal year 1980, IAF spent \$134 million: \$115.1 million for grants, fellowships, and invitational travel; \$18.9 million for administrative costs. Of the grant money, \$51.5 million was from appropriated funds and \$63.6 million was from trust fund monies.

- -- the extent to which successes are emulated and lessons learned are disseminated, and
- -- the extent to which AID provides assistance that is similar to that provided by IAF.

Extensive interviews were conducted with IAF and AID officials in headquarters, and with U.S. Embassy officials, AID mission officials, and IAF grantees in Panama, Costa Rica, Honduras, the Dominican Republic, and Peru. The five countries were selected to represent different geographical areas of Latin America and, thus, permit us to select projects under the jurisdiction of three of IAF's four regional bureaus. Documentation on AID programs, IAF policies and procedures, and IAF projects, was acquired from IAF and AID offices at headquarters and at U.S. Embassies, AID missions, and IAF grantee locations in the countries listed above. IAF grantees were visited in the capital cities of those countries and in various locations in the countryside.

To review the IAF program and similar AID activities, we

- --conducted a legislative search;
- --visited project sites and conducted extensive interviews with grantees in Panama, Costa Rica, the Dominican Republic, Honduras, and Peru;
- --conducted in-depth interviews with IAF's President and the regional directors and staff representatives for the countries we visited;
- --conducted extensive interviews with U.S. Embassy and AID mission personnel, including U.S. Ambassadors and AID Mission Directors in the countries we visited, and with AID officials in Washington; and
- --gathered documentation on IAF policies and procedures, IAFfunded projects, and AID programs in Washington and in the five countries we visited.

Because IAF makes no major distinctions about its major policy and approach to grant assistance within specific countries, we believe that projects within the countries selected fairly represent IAF-funded projects in Latin America. We reviewed projects which accounted for \$19.7 million in rural development, education and training, urban enterprises, community services, research and learning, legal assistance and human rights, and cultural and artistic expression. We believe the issues we identified in the projects represent the difficulties IAF experienced.

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We reviewed 66 IAF-funded projects. This was 41 percent of all projects approved in the countries at the time of our visit. Projects visited were selected to represent a variety of project types, grantees located both outside and inside capital city areas, and projects for which funds were fully disbursed.

This review was conducted in accordance with the General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

IAF activities

Although IAF has established only a main office in Rosslyn, Virginia, it is authorized to establish additional offices in the United States or other countries where it operates. The early decision not to establish additional offices was based on cost considerations and concerns about overseas staff members becoming program operators or foreign supervisors.

Through fiscal year 1980, IAF awarded 965 actual grants, ranging from a few hundred dollars to \$3.16 million. An average grant was \$117,000. Approximately 48.4 percent of all grants through fiscal year 1980 were less than \$35,000.

IAF APPROACH TO DEVELOPMENT ASSISTANCE

IAF has implemented a program designed to respond to the development efforts of Latin Americans rather than prescribe solutions for their needs. The IAF program emphasizes that

- --IAF is independent of short-term foreign policy considerations;
- --IAF supports efforts initiated and supported by Latin Americans;
- --learning from experience is an important part of innovative experimental programs; and
- --IAF has implemented policies and procedures which govern its conduct as an institution, based on the above program emphasis.

IAF independence

IAF maintains an independent decisionmaking posture in its relationship to the U.S. Government and host-country governments. IAF perceives itself as a semi-private agency because of its

- --creation as a separate corporation rather than as part of an existing government department;
- --power being vested in a Board of Directors whose majority, by statute, is drawn from the private sector;
- --statutory ability to receive other funds in addition to congressional appropriations; and
- --statements in the House Committee Report, accompanying the legislation regarding IAF's need to be (1) independent of the political factors affecting the day-to-day course of government policy; (2) insulated from the political currents

present in direct government-to-government relations; and (3) free of restrictions and limitations normally attached to funds involved in government-to-government programs, because IAF will be a semi-private agency operating on the people-to-people level.

Because of its independence, IAF does not submit prospective projects to the U.S. Embassies and Agency for International Development (AID) missions or to host-country governments for approval prior to IAF's decision.

IAF responds to local initiatives

IAF emphasizes that its approach to development is to respond to the initiatives of Latin Americans rather than to identify problems and prescribe solutions from the outside. IAF procedures for project selection, review, and management, are based on the premise that the people who are directly affected by development efforts know best what is needed and how to meet their needs.

The learning process

As an experimental development program, IAF recognizes the value of learning from experience for both IAF and its grantees. To facilitate the learning process, IAF has funded formal evaluations of projects by third parties, usually in cooperation with the grantee. It has sponsored special studies of IAF acitivites by consultants and encouraged formation of ad hoc learning committees among IAF staff. In 1980, the new President created a new Office of Planning and Research with special responsibility for defining, promoting, and carrying out IAF learning, dissemination, and research activities.

OBJECTIVES, SCOPE, AND METHODOLOGY

IAF was created to be an innovative, experimental alternative to traditional U.S. foreign assistance programs for Latin America. It was the end-product of an extensive congressional review of U.S. foreign assistance. IAF has now been providing grants to individuals, groups, and organizations in the United States and Latin America for over 10 years. Enough time has elapsed, therefore, for an experimental program to show demonstrable effects. Further, the nature and strategy of U.S. foreign assistance programs are again under congressional and executive branch scrutiny. Collectively, these factors warrant an in-depth review of IAF activities at this time.

The purpose of our review was to examine

- -- the IAF approach to development assistance,
- -- the nature and accomplishments of IAF-funded projects,

CHAPTER 2

RESULTS OF IAF PROJECTS

Projects funded by TAF have a good chance of meeting some or all of their grant objectives. Most projects we reviewed had done so. Some projects, however, did have problems which limited the extent to which their objectives were met.

RESULTS OF REVIEW OF IAF PROJECTS

Of the 66 projects we reviewed, 29 had met, or were meeting, their objectives; 25 had partially met or were partially meeting their objectives; 12 had not met their objectives. We do not have a statistical basis to project findings from our review of 66 projects to the entire spectrum of projects, however, we believe that problems we identified in our review fairly represent the problems IAF has experienced. We observed that

- --project goals and objectives were sometimes broad, overly ambitious, and difficult to achieve;
- --grant funds were not adequately accounted for or controlled, resulting in misuse and other improprieties; and/ or
- --projects which included the establishment and maintenance of revolving loan funds were experiencing fund depletion due to lending at less-than-current market rates in times of high inflation.

We also found projects that were not attaining self-sufficiency. Although this is not a requirement, it is an expressed objective of IAF funding efforts.

EXAMPLES OF PROBLEMS LIMITING PROJECT RESULTS

Of the 66 projects we reviewed, only 12 failed to meet their objectives. However, of the remaining 54, 25 had also experienced problems which limited accomplishments. Many problems had been identified by IAF staff or by the project audits which IAF required. The following examples illustrate some of the conditions and problems.

Goals and objectives were overly ambitious

Overly ambitious goals and objectives were, in our opinion, characteristic of 22 of the projects reviewed and, because of the complexities involved, the results attained were often less than those intended. For example:

1. 1. 4. 网络翼鳞毛花 计,全部分对键线器等等强度的对视器。所以是国际中一名作品,但是螺纹的工作,由于不同的中心的主动进程。

- *An organization in Honduras received \$524,043 from IAF to organize four regional consumer cooperatives and train 660 managers for affiliated local outlets. Eighteen thousand families were to benefit over a 3-year period and the program was to be self-sustaining at that time. IAF funds were to capitalize a revolving loan fund which was to be leveraged with Honduran banks. We found that some cooperatives had been organized. We were told by a grantee official, who was familiar with the completed project, however, that the grantee organization did not have the capacity to provide technical assistance which the farmers needed and was not prepared to handle all the new groups that emerged. Further, related documentation at IAF showed that project evaluations had described the program as over-ambitious and concluded that necessary training and technical assistance had not been provided.
- *A grant of \$227,316 was provided to increase the number and membership of rural womens' clubs in Honduras and to provide associated training and loan funds. An official associated with the project told us that training had been provided and the number of clubs and members had grown. Related project data reviewed at IAF supported this but also noted that the program had difficulty meeting specific objectives because the grantee's support to the clubs was withdrawn and program objectives were too ambitious. For example, it noted that grant administration, coordination, and fund control had been poor and that the loan fund had been unsuccessful because funds were not used for intended purposes and were not repaid.
- A grant of \$234,100 was to help carry out a rural extension program in Costa Rica to improve administration and operation of 30 rural organizations. A subsequent evaluation which IAF funded found that (1) only 14 organizations had been assisted due to distances between them and limited project staff; (2) project team visits were short and infrequent and provided limited followup; and (3) farmers reported that much of the training provided was inapplicable to their needs.

Other examples of projects with broad goals or objectives included the following.

- --A project in Panama to provide training, establish services, and provide coordination and joint planning among rural women's groups on a regional and national level.
- --A project in Panama to help 150 community groups form federated cooperatives, that included establishing a revolving loan fund, education programs, publishing community bulletins, and rehabilitating five training centers.

- --A project in the Dominican Republic to expand a rural development program, including operation of a loan fund and provision of training and technical assistance to 20 associations of about 600 persons.
- -- A project in Costa Rica to test a unique learning concept in a remote community of generally low-educated people.

Grants were sometimes poorly managed and grant funds inadequately controlled

We found that for 18 projects, grant terms had not been complied with or that grant funds had not been properly accounted for and controlled. For example:

- --A small manufacturing firm in Peru had received \$12,000 to purchase a lathe. According to the manager, who was new, the lathe had not been purchased and he had no knowledge of the grant.
- --An organization in Peru received \$3.2 million from IAF to enable it to provide training, technical assistance, and loan credit to worker self-managed enterprises. Our review substantiated IAF data that the grantee had not attained worker participation in the program in accordance with grant terms. Further, the grantee had placed priority on self-interests, overspending funds on operational costs, and had failed to keep adequate accounting records.

Our review of IAF project data pertaining to the results of independent evaluations and audits of projects, showed other problems related to grant administration and use of grant funds.

- --A grantee in Honduras was reported to have applied \$61,000 to projects unrelated to the IAF grant; \$50,000 to another IAF grant; and \$71,000 on unauthorized items. Further, the grantee had not established proper accounting controls as IAF requires. Loans had been made to unauthorized groups.
- --Financial improprieties were reported for a grantee in Peru. Primarily, \$226,331 of grant funds had been used to pay outstanding debts.

Other examples reported for specific grants were

- --no central office or administrative structure/organization had been created to control the projects;
- --loan fund was not established nor records kept;
- --suspected fraud, misuse of \$119,000, and improper allocation of interest payments received;

- --inadequate personnel, poor coordination, inadequate loan followup, and misuse of \$182,000; and
- --apparent misuse of grant funds and failure to provide counterpart funds.

Loan funds were being depleted

Providing grant funds to be loaned to beneficiaries was an element in 17 projects we reviewed. Grant funds were provided to organizations to establish revolving loan funds for small borrowers who did not have other credit sources. These groups, however, faced the dilemma of lending at commercial terms and rates which would have helped those who could not obtain commercial credit but would, in turn, result in depleting the revolving loan funds.

We found that most were lending on concessional terms which, coupled with high inflation, was sometimes depleting the funds. For example:

- --An organization in Peru was charging farmer clients interest rates well below commercial rates during a period of about 70-percent inflation. Officials stated that gradual depletion of loan funds would have to be offset by contributions from cooperative members.
- --Grantee officials in the Dominican Republic stated that lending at 8 percent, well below market rates in a period of 25-percent inflation, had left them in a position of depleted funds and general financial weaknesses.

IAF project files also showed that at least six projects had experienced loss or depletion of loan funds because of poor management or the need to use the funds for administration and operational expenses. For example:

- --An organization in Peru borrowed freely from its investment fund to meet operational costs.
- --An organization in Panama required an amendment to the grant to permit the use of loan fund monies for salary and transportation costs.
- --An organization in Honduras lost most loan funds because of over-extended credit and inadequate control.

Projects are not self-sustaining

Thirty-eight projects were not self-sustaining, and grantee officials generally were not optimistic that self-sufficiency could be attained--at least in the near future.

Many groups had been receiving assistance for several years from other donors, as well as IAF. Some, however, were still unable to provide the counterpart funds called for in the IAF grant agreements. Some that did used grant funds from other donors for this purpose. For example (1) IAF file data pertaining to four projects in Honduras cited that the grantees had been unable to provide the counterpart funds required; and (2) a grantee in the Dominican Republic advised us that a counterpart contribution of \$301,000 had been acquired from other donors, primarily European assistance organizations. In view of the extent of these conditions in our sample, we believe that many groups will continue to require donor support for an extensive period of time.

CONCLUSIONS AND RECOMMENDATIONS

Most IAF-funded projects we reviewed had fully or partially met their objectives; others had not. Further, many had had some problems in achieving their objectives.

We believe that objectives are going to be difficult to achieve if goals are overly ambitious and grant funds are not used properly. Establishing more specific and concise objectives when making the grants, followed by increased IAF emphasis on the appropriate grant fund application would help solve this problem.

Accordingly, we recommend that the President of IAF direct the staff to

- --require that the grantees develop specific objectives which the staff believes are attainable and
- --increase attention to the use of grant funds at the project level to verify application of funds in accordance with agreed terms.

AGENCY COMMENTS

The agency expressed general agreement with our conclusions and recommendations. (See app. I.)

CHAPTER 3

MONITORING COULD BETTER SUPPORT GRANTEES

IAF does not attempt to direct project implementation. According to IAF representatives, within this policy of non-intervention, the monitoring policy consists of IAF representatives visits to grantees of active projects at least once a year; requirements for program and financial reports from all grantees; and independent audits of certain grantees.

During our visits to IAF grantees, we found that grantees generally appreciated the freedom and autonomy they had under IAF. Some grantees, however, were having problems or wanted assistance, but did not know how or where to acquire it.

- A review of IAF records showed that
- -- the IAF staff engages in many activities in relatively short periods of time during country visits;
- --most grantees were visited to some extent by IAF, but monitoring visits appeared to follow no discernible pattern to ensure full coverage of projects; and
- -- required reports were often delinquent.

We believe that monitoring could be more effective and could better support grantee efforts and that IAF could be more active and constructive in helping grantees identify possible options and sources of help.

THE PROJECT SELECTION AND REVIEW PROCESS

IAF does not prepare country plans or programs, nor does it design and present projects to Latin Americans. Instead, according to IAF representatives, it reviews the ideas, hopes, suggestions, and proposals of Latin Americans. To respond effectively to Latin Americans, IAF tries to provide decisions on formal project proposals as quickly as possible. The internal review process attempts to keep the review time to 3 months or less.

IAF staff representatives are assigned responsibilities in one or more countries. To carry out their responsibilities, they are required to be fluent in the languages of the countries in which they work. Some experience living and/or working in Latin America is also generally required.

The review process itself is not fixed and currently varies somewhat among the regional groups, but many elements are consistent. According to IAF officials, all groups submitting formal

proposals are visited in-country by the IAF staff. After the field visit, the staff prepares a written project analysis as the background paper for review within IAF. A regional director may review staff analyses and recommendations directly, or a team-including two or more other Foundation representatives and possibly the regional director -- may analyze and evaluate the proposal. Regional directors currently possess decisionmaking authority on projects funded for less than \$500,000 although the President can overturn that decision. Projects may be reviewed with the President, and possibly the Board, if the projects are considered to be sensitive for political or other reasons, or the dollar amount exceeds certain guidelines. To speed up response time and in order not to raise expectations falsely, Foundation representatives may themselves reject preliminary suggestions during their visits in-country. But once a formal proposal is submitted, it must be reviewed before approval or rejection.

Regional directors and staff representatives we interviewed informed us that as part of the IAF policy of supporting local initiatives, potential grantees generally must have some history of and must be able to demonstrate local support for the project. Grantees must also provide input into projects in the form of additional funds or in-kind contributions.

The policy of responding to local initiatives also means, for IAF, a general posture of non-interference in project management. IAF might fund needed technical assistance for a project, but it does not provide it itself and although projects may be visited more frequently depending on accessibility and staff workloads, the general policy for monitoring projects calls for one visit a year.

Problems encountered during project reviews

We found that many grantees we met had been visited by the IAF staff after receiving their grants, and, overall, the grantees spoke favorably of their relationship with IAF. They generally appreciated the IAF management style and the autonomy, freedom, and flexibility it afforded them.

We also found, however, that some grantees were having problems or desired assistance. Although many grantees easily initiated contact with IAF after receiving their grants, we found that others did not know where to turn for help. The latter generally appeared reluctant to contact or approach IAF concerning their problems and were waiting for the next IAF visit, hoping that the meeting might help produce solutions. The following examples illustrate these situations.

•In September 1977, the community of Playon Chico in the San Blas Islands of Panama received grant funds to implement agriculture and poultry projects and to overhaul and repair a cargo boat. In December 1979, an amendment provided additional funds to construct a small footbridge to the mainland. At the time of our visit to the island, we found that the boat project had to be abandoned because of lack of expertise and technical know-how. This, in turn, had caused suspension of a poultry project because feed could not be transported to the islands. The bridge had not been constructed because of insufficient funds.

We were told that a Panamanian organization was supposed to be managing this project. However, the grantee had little contact with or assistance from that group and negligible contact with IAF. Community officials had little hope of receiving any further assistance from either organization, and, hence, had no plans to seek assistance outside their own island community. They had had very limited success, however, raising funds on their island.

- •In November 1980, the community of Loma Colorado in David, Panama, received grant funds to construct, equip, and operate a vocational skills training center. When we visited the project, we found that construction had started but was subsequently delayed because of problems in using the blueprints. The grantee had obtained blueprints for a building from the education ministry and was constructing one wing of that building. After construction had begun, the grantee encountered problems associated with the construction material requirements and the fact that the wing was only part of a whole building unit. The blueprint, for example, called for construction materials not available in that remote part of Panama. To obtain materials, even if possible, would have required additional money which the grantee did not have. Another recourse was to redesign the construction requirement to allow use of locally available materials, even though construction was well underway. The grantee informed us they would wait for a visit from IAF before proceeding.
- •In July 1980, a small worker, self-managed manufacturing firm in Costa Rica received grant funds to improve working capital, provide training, and construct painting facilities. At the time of our visit, we found that the firm was facing severe financial problems complicated by the fact that accounting and financial statements were inadequate for establishing accurate and up-to-date accounting data for sound management. For example, an independent audit during September 1980, found that the firm had not yet fulfilled grant agreement requirements for maintaining separate records, auxiliary accounts, and financial statements to adequately account for and control grant funds. The firm desired both management and technical expertise but had not been able to obtain reliable stable assistance in

either area. The firm had benefited from short-term volunteer assistance but was unable as yet to replace it. They could not afford the \$1,400 cost of a Canadian retired volunteer. A large international development organization was supposed to be sending a volunteer for 6 months in June, but a previous promise had not been fulfilled.

After our fieldwork, IAF advised us that the early audit had been requested by IAF because of the grantees' history of financial problems. We were told that, as a result of the audit and subsequent to our visit, the grantee had added a qualified accountant to its staff and had received technical assistance through the United Nations Development Program.

We advised IAF that these examples, in our opinion, demonstrated that IAF, through its project development and monitoring activities, could provide increased accessibility of its staff to better support grantee efforts, without infringing upon the IAF desire to avoid directing grantee activities or prescribing overall solutions. IAF officials advised us that they recognized that the agency should advise grantees about where to obtain technical assistance and should provide funds for such assistance.

IN-COUNTRY VISITS AND REPORTING ACTIVITIES HAVE LIMITED UTILITY

The project monitoring policy of IAF provides for (1) visits to grantees of active projects at least once a year, (2) periodic program and financial reports from all grantees, and (3) independent audits of grantees receiving more the \$35,000. We believe that the duration of country visits and competing demands on the IAF staff during those visits hinders adequate review of active projects.

We reviewed reports on field trips by IAF staff representatives to Peru, Honduras, and the Dominican Republic for a 2-year period and found that many activities occur in relatively short periods of time. Representatives visiting Peru participated in about four different kinds of activities on each trip, such as visiting grantees of active projects, reviewing formal project proposals already received, receiving new proposals or possible ideas for new projects, and making new contacts.

Our analysis showed that little time was available. For example, staff representatives visiting Peru had an average of about 20 meetings or contacts per trip. The average length of each trip, however, was only 13 and 1/2 days, including travel from and to the United States, weekends, holidays, and travel time within the country. Travel requirements, in all countries, can be very time-consuming, thereby reducing the time available for project-related activities. For example, because the only access to the town was by car, going from Lima to Huancayo in Peru

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took us a full day. To reach Yoro in Honduras required a 1/2 hour flight to San Pedro Sula and then about a 4-hour drive to Yoro. A cancelled flight from Panama City to the San Blas Islands meant waiting until the next day for the next scheduled flight.

Time in-country can be limited further by unexpected occurrences. For example, the length of IAF visits to grantees or prospective grantees was unpredictable. One IAF staff representative noted in a trip report that some grantees to whom visits had not been planned, frequently requested visits after the staff had arrived. We had similar experiences. The time we spent reviewing grantee projects varied with the complexity and progress of the projects and other associated problems.

We also found that visits to active projects did not appear to follow a discernible or deliberate pattern. For example, of 30 projects in Peru which could be determined to be active during the 2-year period and warranting, therefore, two annual visits under IAF policy, 23 percent were never visited and an additional 17 percent were visited only once. On the other hand, 16 percent were visited four times, and an additional 26 percent were visited five or more times. Of 16 active projects which appeared to warrant only one visit because they were approved during the first half of the 2-year period under review, 25 percent were not visited at all; 31 percent were visited three to five times. projects visited most frequently were projects which had problems. Some, however, were visited frequently at the initiative of grantees or for other reasons. Some staff representatives told us that the actual frequency of visits beyond the minimum depended also on the ease of accessibility to the grantee or the project cost. We were told that grantees in capital city areas were likely to be more frequently visited than grantees in outlying areas.

It is important, however, that all active projects are visited on a timely basis. Until our visit to the grantee, for example IAF was unaware of the apparently non-existent lathe (referred to in ch. 2) that was supposed to have been purchased with \$12,000 of IAF grant money. This was one project for which we found no evidence of being visited by IAF representatives during the 2-year period under review. IAF must be aware of problems to provide support to grantees and to address other situations.

Utility of reports limited by delinquencies

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IAF requires program and financial reports from all grantees at 6-month intervals and independent audits on grants exceeding \$35,000. Projects which last more than 1 year must be audited after the first 6 months, again after 18 months for longer projects, and when the projects end.

These reports are important for monitoring purposes. The audit reports, in particular, have proven to be effective in disclosing problems which pertain to management of grant funds. If reports are not received within the timeframes required, however, their utility for project review and IAF assistance—or intervention, should there be mismanagement of funds—is diminished.

A review of the March 31, 1981, IAF report, "Status of Reports Due and Overdue," and other agency records, showed that the reports were often delinquent, some for long periods of time. For example, of 11 Panama projects recorded in the status report, 4 showed no record of progress reports received, 3 had no record of financial reports received, and 5 had no record of audit reports received. Many reports recorded as received were late.

IAF does encourage timely submission of reports and has recently instituted some new procedures to identify delinquent reports. We support those efforts and believe that, when in-country, the IAF field staff should check on overdue reports.

CONCLUSIONS AND RECOMMENDATIONS

Monitoring activities could be revised to assist grantees in resolving problems, and IAF can better support grantees without actually directing project development. Such efforts could increase the positive results which IAF grants engender and could reduce the seriousness and frequency of problems arising in grants. (See ch. 2.)

We understand that more time in-country entails additional travel costs for IAF, but we believe that the possible benefits to grantees and the opportunity to minimize mismanaged funds will warrant the additional cost. We also, understand that IAF does not want to solve grantee problems for them and does want grantees to grow by learning how to address their problems. We believe, however, that grantees want very much to achieve grant objectives, and will grow and learn more through achieving those objectives than through unnecessarily long impasses at project problems. We recommend that the President of IAF clearly define a monitoring policy which calls for the staff representatives to

- --carefully plan monitoring activities to provide coverage of all active grants to better ensure timely identification of problems causing delays or cases of mismanaged funds;
- --play an active, constructive role assisting grantees, faced with problems hindering project progress, to identify possible options or sources of help; and
- --regularly check, during country visits, on grantees who are overdue in fulfilling reporting requirements.

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AGENCY COMMENTS

The agency generally agreed with our recommendations concerning project monitoring. (See app. I.)

CHAPTER 4

COORDINATION AND DISSEMINATION

EFFORTS COULD BE MORE PRODUCTIVE

IAF is one of many organizations that supports development efforts in Latin America and the Caribbean. Coordination with these organizations, however, has not been regular or systematic. Further, because IAF emphasizes support of experimental, innovative projects, disseminating its experiences inside and outside the organization is crucial to improving its own program and providing the maximum benefits from its development efforts. Dissemination has been generally irregular and limited; however, to its credit, IAF has recognized this and has made recent improvements.

IAF, its grantees, and other organizations supporting development efforts could benefit from more active IAF coordination and dissemination. IAF could improve staff skills and program quality through increased coordination. In addition, organizations could better complement each other's assistance activities, thus providing overall programs which respond to the needs and support of, potential grantees.

IMPROVED COORDINATION NEEDED

Many organizations offer various programs to improve the economic and social conditions in Latin America and the Caribbean. IAF is also one of these organizations. Other organizations, many of which receive funding from the United States, include AID, the Organization of American States (OAS), the World Bank, the Inter-American Development Bank, Oxfam in England, Misereor in Germany, and the United Nations. Many IAF grantees also receive, have received, or may receive funds from these organizations. Active coordination of the respective programs could enhance their overall effectiveness by

- --enabling organizations to more frequently offer combinations of assistance programs when such might enable prospective grantees to more fully meet their stated goals; and
- -- facilitating the exchange of experience and knowledge about countries, indigenous organizations, and development.

Coordination with other development organizations has been generally sporadic

In addition to AID, the IAF staff does have contact with other development organizations, but continuing, regular contact for the exchange and sharing of information and ideas appears to

occur effectively only with the officials and staff of the Inter-American Development Bank (IDB) Small Projects Fund. From discussions with the IAF President and staff, we learned that contact with the IDB Small Projects Fund occurs regularly. The IAF President, accompanied by various staff members, has luncheon meetings about every 6 weeks with the Director of the Small Projects Fund.

Although contact occurs with other organizations at both the presidential and staff levels, it appears to be irregular and generally depends on individual efforts. Although the President of IAF said that institutional coordination was generally systematic, he also noted that most coordination occurs at the country level with IAF representatives. IAF staff members informed us that contacts with U.S. private and voluntary organizations providing aid to Latin America were entirely up to the IAF representatives as were contacts with Peace Corps members. One staff member mentioned keeping apprised of another organization's activities through regular perusals of a monthly bulletin on projects funded, but another staff member had never seen the bulletin. One staff member that usually contacted organizations co-funding projects with IAF, noted that making such contact was unlikely if the organization was European.

Many grantees we visited had received funds from other development organizations. Reviews of IAF project histories and discussions with these grantees indicate that any coordination which occurred was generally irregular and relevant only to a particular project.

One example of poor contact occurred on the tiny and densely populated island of Playon Chico, off the Atlantic Coast of Panama. The island is entirely inhabited by Cuna Indians who had received a grant from IAF. During our visit, we met Panamanian Government personnel responsible for implementing an OAS-funded project on the island. They were neither aware of the IAF project nor of IAF. The OAS Regional Director in Panama had also never heard of IAF, but subsequently expressed a desire to meet with IAF representatives during their visits to Panama. He believed that coordination could be very beneficial.

Contacts with U.S. Embassies and AID missions could be more systematic

IAF says that it coordinates its activities with U.S. Embassies and AID mission personnel through (1) notification of projects under review as well as those approved by sending the U.S. Ambassador a copy of the Public Statement which is a brief summary of the project and (2) IAF visits to the Embassies and AID missions during trips to the respective countries.

Our review of IAF records and our discussions with Embassy and AID personnel showed that IAF notifies the U.S. Ambassadors of

projects which have been approved by sending them copies of the Public Statements. In addition, IAF representatives have made contacts with Embassy and AID officials in the countries we visited.

Most Embassy and AID officials believed that the content of the meetings with IAF personnel limited interaction. They said that the IAF representatives discuss IAF activities in general terms but do not usually solicit opinions or advice about projects which are under consideration. They, thus, believed that the contacts failed to encourage worthwhile coordination.

IAF file data, such as trip reports and letters, showed that contacts were made. The nature and extent, however, varied. In some cases, frequent contacts with Embassy and AID personnel had been made and pertinent matters had been discussed. For others, there was little evidence of this occurring. Much appeared to be at the discretion of the IAF representative and depended upon relationships established with mission personnel. We found that these relationships varied from very good, with thorough exchange of information, to poor, with only limited, formal contact. Consistency and uniformity were lacking. Consequently, we believe that a more systematic approach would contribute to more substantive interaction between IAF and Embassy and AID personnel and, thus, would further enhance the development activities of both IAF and AID. IAF agreed that coordination could be more systematic.

IAF conduct may hinder coordination

U.S. Embassy and AID officials in the countries we visited said that the IAF staff displayed an independence in contacting Embassy and AID officials. Although this feedback did not come from all U.S. personnel with whom we spoke, it occurred with enough frequency that we believe some concern is justified.

Given the unusual IAF role as a U.S. Government corporation providing foreign aid separately from executive branch departments, we can understand the sensitivity which IAF may feel, or has felt, when dealing with U.S. Embassy and AID personnel, especially in the early years of IAF's evolution. We can also understand IAF staff concerns about IAF's identity when they are trying to work with indigenous organizations which, for whatever reason, prefer not to work with AID.

We believe, however, that after 10 years of operation, IAF has established its identity vis a vis U.S. Embassies and AID missions. The IAF President informed us that he is pleased with the support he has been receiving from U.S. Embassies. For those groups concerned about the identity or affiliation of IAF, IAF has publications and staff to explain its organization. We believe that the IAF staff can be effective in establishing good

working relationships and, thus, should be more attentive to creating a positive working environment with U.S. Embassy and AID mission personnel.

DISSEMINATION SHOULD BE SYSTEMATICALLY BROADENED

IAF primarily tries to fund innovative, experimental projects which may contribute new learning experiences to development efforts. Given its experimental nature, dissemination of IAF experiences, inside and outside the organization, is a critical mechanism for multiplying the benefits of the IAF program and activities. IAF recognizes the value of dissemination. Most of the grant agreements for the projects we visited contained a "learning process" clause which generally stated that

- --the grantee and IAF expect that lessons learned from the project may aid other groups throughout the hemisphere to better solve their own problems;
- -- the grantee agrees to cooperate in taking, or allowing others to take, all reasonable steps to learn from the project; and
- -- the grantee agrees to disseminate, as widely as possible, all lessons learned.

IAF has promoted the sharing of experiences among its grantees who are involved in like endeavors, even having brought groups together from different countries. The processes, however, by which IAF shares its experiences among its staff and with outside organizations other than grantees, are unsystematic and, thus, not fully effective. We note that IAF does try to disseminate its experiences in these two contexts and has recently made a significant commitment in terms of attention and resources toward dissemination outside of IAF.

Dissemination within IAF is sporadic

IAF recognizes the value of sharing experiences within its own organization and has several ways sharing can occur. These various activities, however, appear to present a medley of opportunities, for which the staff may or may not take advantage; which provide limited opportunity for sharing; or which do not focus essentially on assessing project experiences for the purpose of improving review and analysis in the future.

Opportunities for sharing project experiences or interests in particular types or sectors of projects arise with the various ad hoc committees, only when the staff displays an interest and is willing and able to participate. The activities and productivity of the committees varies, however. One example is the Cultural

Committee which most staff members we talked to believed was a very useful and productive committee. The committee examined the IAF funding of cultural projects and issued a report to help improve the IAF review of proposed future projects. Another committee, however, serves as a discussion group for members.

Another vehicle attentive essentially to projects, is the team review of project proposals. When a Foundation representative has prepared an analysis of a proposed project, and possibly a recommendation, generally a team of representatives meets to review the project and make suggestions or recommendations. This provides the staff with an opportunity to share their own expertise. Regional procedures vary, however, as to which projects require a team review, how many staff members will participate in the team review, and whether staffs from other regions will participate. Opportunities for learning and sharing, therefore, are limited and irregular.

Formal evaluations of individual projects provide an opportunity to learn from a particular experience, but all projects are not formally evaluated. As the staff repeatedly noted, those evaluations which are completed are not all very good or useful.

Every 4 months, the President holds preview/review sessions with all staff of each region. Through these sessions, the President keeps informed of activities completed and expected or planned within the regions. Programmatic questions may arise as well as various problems, such as how to deal with conditions in a particular country. Emphasis appears to be on general activities rather than sharing project experiences relating to projects monitored by other representatives. In addition, each region meets separately with the President, thus limiting the range of experiences from which to draw.

Once a year each region makes a presentation to all of IAF on events and IAF projects in its region. We believe, however, that emphasis on in-depth analysis of projects, by type, and the various factors affecting project outcome would provide a more useful focus for sharing experiences within IAF.

Trip reports on the results of visits to countries provide another opportunity for sharing experiences, but they may or may not be read by other staff members. Only one of three Foundation representatives we interviewed in-depth cited the trip reports as a source of learning from others' experience.

Dissemination outside IAF could be more systematic

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IAF has made some effort to evaluate its activities and disseminate experiences outside IAF, but these efforts have been generally sporadic, except for sharing among grantees.

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Sharing among grantees

IAF supports the sharing of experiences among the groups with which it works. IAF pays travel expenses of individuals to visit projects of mutual interest and to participate in group learning experiences within their own countries and in other countries in the hemisphere. It has also attempted to transfer the lessons of success from individual grantees to others. For example, one grantee we visited in the Dominican Republic had established a unique and successful financial program for agricultural development. Grantee officials told us that representatives from Costa Rica, Guatemala, and Haiti had visited the project so that they may hopefully emulate it in their own countries. The only restrictions affecting such dissemination appear to be the limits on sharing project experiences within IAF, as discussed above.

Use of project evaluations limited

Formal project evaluations are a limited source of material for disseminating IAF experiences outside IAF. All projects are not evaluated formally. IAF will sponsor evaluations generally only in cooperation with the grantee. Dissemination of the results beyond the grantee and IAF also occurs only with the approval of the grantee because IAF believes to do otherwise would violate a trust and confidence. We were also told that some grantees may be sensitive about disseminating evaluations of projects which failed. Further, the IAF staff informed us that some evaluations are poorly done. Those that are not good, we were told, were of little use. Further, although the IAF staff said evaluations of projects were shared with AID, when AID had also given funds to the grantee, the people with whom we spoke at U.S. Embassies and AID missions in the five countries we visited were unaware of having received any. All, however, wished to receive copies of IAF evaluations and feasibility studies because they believed the reports would be useful in their own project selection process. All wanted to establish a dialogue with IAF to exchange such data.

Other efforts

There are other ways, primarily through studies and publications, that IAF disseminates information outside the organization, but they are still in early development stages. The "Annual Report" focuses on IAF and its new activities during the preceding fiscal year. The "Journal," containing articles on IAF activities and development issues, is supposed to appear twice a year, but currently has been running behind schedule. The new monograph series, with only one publication in its listing, was being reviewed for cost before a second monograph was issued. IAF staff members also participate in outside conferences and seminars on development.

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Distribution

The IAF Office of Planning and Research told us IAF is moving toward distributing publications to specific audiences. IAF asked the author of a paper on IAF support for health projects to submit a list of about 100 agencies that would be interested in the report. The paper was to be sent to everyone on the list, as well as to additional interested people suggested by others. We believe that this process could provide a foundation for an effective, systematic distribution effort, especially if IAF works to retain and expand lists of such interested parties, identifying the variety of interests, where applicable. Many other development organizations or educational institutions are likely to be interested in more than one sector and in broader development issues.

CONCLUSIONS AND RECOMMENDATIONS

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IAF coordination and dissemination activities could be improved to increase the effectiveness and impact of IAF's support for development projects. Active regular coordination with other governmental and non-governmental development organizations is essential to achieve the impact that the IAF program can, and is intended to, have. We believe that substantive interaction with U.S. Embassy and AID mission personnel about proposed projects prior to final action by IAF, could provide IAF with valuable input to consider when deciding whether or not to approve a proposal.

Our review has shown that there is a need for IAF to focus on regular, comprehensive review and dissemination of project experiences among the staff and systematic dissemination outside IAF. IAF's new leadership appears to be dedicated to making use of IAF learning experiences. The new President recently stated in testimony before the Congress that

"* * *we will fall short of our Congressional mandate to be an experimental, innovative organization if we do not make a greater effort at research and evaluation."

To meet that need, he created the new Office of Planning and Research, currently operating with a staff of five, some reassigned from within IAF. That office is responsible for learning, dissemination, and research activities. It currently is supporting studies of IAF project activities, by project type, such as a recent review of IAF experience with rural credit. We believe that in-depth studies which focus on IAF experiences with the various types of projects can be a very effective vehicle for comprehensively disseminating IAF project experiences for review, discussion, and learning within IAF, as well as outside IAF. More systematic evaluation and dissemination of IAF experience

in development would enable IAF to enhance its overall contribution to development efforts through its support of experimental and innovative activities.

To improve program coordination and the dissemination of its experiences, we recommend that the President of the IAF

- --establish explicit policy guidelines and operating procedures for an active coordination program, setting forth the responsibilities expected at each staff level; and
- --establish a systematic approach to information dissemination so that valuable experiences are effectively communicated within IAF and to interested agencies, organizations, and individuals.

AGENCY COMMENTS AND OUR RESPONSE

The agency is in general agreement with our recommendations concerning coordination and dissemination efforts. (See app. I.) IAF, however, has expressed concern about its ability to fully pursue all recommendations in view of current staff levels. It believes the recommendations are sound, but states that each recommendation will place new demands on staff resources and also involve increased overhead expenses. (See app. I.)

We agree that it is important to consider new demands in weighing costs and benefits associated with any proposed increases in staffing and funding levels for this purpose. We believe, however, that improvements can be achieved through more efficient use of available resources. For example, a carefully planned and selective approach to monitoring trips could facilitate a more efficient and effective allocation of time among projects and other activities in-country.

CHAPTER 5

SIMILARITIES IN AID AND IAF ASSISTANCE

Because of continuing concerns that U.S. assistance reach poor people in developing countries, the Congress gave AID new mandates in the 1970s. To help respond to those mandates for programs providing new directions and supporting basic human needs, AID implemented two small project funding programs similar in nature and intent to those of IAF: The Special Development Fund Activity Account and the Operational Program Grants. AID officials believe these programs effectively enable AID to respond directly to the needs of some indigenous groups without having to seek approval from host governments for each grant. We did not attempt to compare AID and IAF programs. We do believe, however, that the programs can and should be more complementary.

NEW MANDATES

The Congress established IAF because it was concerned that traditional government-to-government programs were not directly benefiting the very poor. To further respond to this concern, the Congress gave AID new mandates by passing new directions legislation in 1973 and certain amendments to the Foreign Assistance Act in 1978.

The new directions legislation required AID to focus its efforts on helping poor people in developing countries—especially the rural poor. The 1978 amendments called for programs which would particularly help meet basic human needs and self-sustained growth with equity.

To respond to these mandates, AID developed a new directions and basic human needs strategy with objectives to

- --assist poor people to increase their incomes by (1) raising productivity; (2) increasing access to productive resources such as land, seed, fertilizer; and (3) expanding opportunities for employment;
- --increase the availability of food, shelter, health, and education required to meet basic human needs; and
- --ensure that all poor participate in development decisions which affect their lives.

Special Development Fund activity

The Special Development Fund--frequently called the Ambassador's Fund, among other titles--was designed to be a source of funds from which designated AID missions could easily finance constructive, small-scale activities. Although the fund is assigned

to U.S. Ambassadors to use at their discretion, most Ambassadors then assign the management responsibility of the fund to the AID missions. Criteria for use of the fund are set forth in internal AID directives and include the following.

- -- Projects should be small, local development activities with immediate impact.
- --Projects should assist segments of the local population which are beyond the direct reach of other AID projects or government financial support to achieve specific self-help goals.
- --Projects should be given priority in the areas of agriculture, education, health, transportation, and productive income-generating activity.
- -- The fund contribution should be approximately \$5,000 or less.
- --Projects should have a community contribution in cash or in kind of at least 50 percent of the project cost.
- -- The fund should not finance administrative, operational, or labor costs of projects.

Originally, funding authority of up to \$50,000 was available for each country mission receiving money from this account. Of the five countries we visited, the AID missions in Peru and Costa Rica under an approved exception each had allocations of \$100,000; the Panama and Dominican Republic missions had \$50,000 allocations. For the past 2 fiscal years, the AID mission in Honduras requested that their present fund of \$50,000 be increased to \$100,000, but AID/Washington refused each request.

AID officials with whom we talked believed the fund was effective in providing basic support for self-help projects. AID officials characterized the projects as reaching the same types of grantees that they understood IAF was supposed to be reaching. In addition, requests can also be processed quickly. AID officials in Peru said that projects were approved, on average, in about 1 month.

In an August 1980 study for the AID mission in Costa Rica for projects in Costa Rica, a private consultant found that all beneficiaries were favorably impressed by this funding mechanism. The consultant believed that the fund had helped engender a positive feeling among beneficiaries toward U.S. Government development efforts. The study concluded that the fund had been an effective, low-cost means of meeting the self-determined needs of many communities in Costa Rica. Based on visits to project sites, the consultant reported that social impact of the projects appeared highly favorable. Direct economic impact, however, was not of

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major significance because most funded projects were of a social nature, such as community centers and school facilities.

Operational Program Grants

The second funding mechanism AID uses in implementing the new mandates is the Operational Program Grant. These grants differ from the Special Development Fund in that they are not budgeted annually as individual items. Operational Program Grants are funded from AID's regular program budget as they arise and are approved. No arbitrary ceiling is placed on total grant funding except that grants are weighed on individual merit, with all other competing demands, in accordance with the development strategy for the specific country. At the time of our review, the local missions had authority to review and approve grants up to \$500,000 over the life of the project. This was subsequently amended, effective December 23, 1981, to \$1,000,000 over the life of the project.

With the grants, AID attempts to get beyond urban metropolitan areas to reach groups in the countryside. AID worked through indigenous, private and voluntary organizations which must be registered with AID. The AID missions currently handle the registration process.

AID seeks assurances that projects have a reasonable chance of success and tries to avoid funding projects in perpetuity. Inherent in this strategy for AID is the provision of technical assistance, if and when needed. AID is trying, with these grants, to streamline the decisionmaking process as much as possible. Responses can usually be provided within 4 to 6 months, according to AID.

IAF AND AID PROGRAMS CAN COMPLEMENT EACH OTHER

Opportunities exist for IAF and AID programs to complement each other. In this regard, IAF, within its authority to be experimental and risk-taking, can break the ground with regard to new projects and new groups. If, once the projects are established but still need help, AID can then render assistance because of its presence in-country and project knowledge. We saw an application of AID/IAF coordination in the Dominican Republic.

•IAF had funded a project to establish organic farming research centers. We were told by a grantee official that because it was a new and innovative approach, it was not something AID would initially support. He stated, however, that after the project was underway, it was visited by AID and Peace Corps officials. As a result, AID was willing to entertain a proposal from the grantee, requesting additional funds for training.

IAF does not emphasize, nor directly provide, technical assistance, but AID does emphasize this aspect. This presents further opportunity for collaboration. In an active project to provide credit and technical assistance to small urban enterprises, for example, AID was covering administrative and technical assistance costs while IAF provided funds to capitalize a rotating credit fund. We believe that increased emphasis on coordination could disclose similar opportunities.

We do recognize that problems exist. For example, AID does not work in all countries that IAF does and, although the two AID programs are similar to that of IAF, significant differences in approach do exist. Some major differences are that AID maintains a presence in-country and works directly with program beneficiaries while IAF does neither. Further, although we have addressed the need for IAF to have more substantive interaction with AID, IAF has stated that AID does not routinely inform it of the AID programs. Effective collaboration requires equal cooperation.

CONCLUSIONS

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There are similarities and dissimilarities between the AID programs described in this chapter and IAF's program for addressing development needs, and we did not attempt to assess the relative merits or deficiencies of the two approaches in this review. The Special Development Fund Activity Account and Operational Program Grants, like IAF, generally avoid host-country problems and are considered by AID officials to be very effective at reaching indigenous groups—the same groups IAF supports. With its incountry presence, AID can closely monitor its projects and can also provide technical assistance to grantees, if needed. IAF, on the other hand, has basically a hands-off policy, believing that grantees benefit more if they address their own problems and determine their own needs and directions.

To improve the effectiveness of the U.S. foreign assistance program in Latin America and the Caribbean as it currently exists, we believe that the AID and IAF programs can and should complement each other. In chapter 4, we recommended that more emphasis be placed on coordination. We would like to reiterate and stress the potential benefits of coordination for improving the decisionmaking process, and, hence, improve project selection and outcome for both organizations. We also believe that, in coordinating their activities, IAF and AID should more seriously consider the availability and use of follow-up funding by AID, given the IAF emphasis on innovative and experimental projects.



May 14, 1982

Mr. Frank C. Conahan Director International Division U.S. General Accounting Office Washington, D. C. 20548

Dear Mr. Conahan:

I am responding to your letter of April 14, 1982 in which you request our comments on the GAO's draft report on the Inter-American Foundation. My colleagues and I appreciated the thoroughness and sensitivity with which GAO carried out its review. We believe that the report accurately describes the Foundation's purposes, operating style, and role in U.S. foreign assistance.

Our own assessment of project results concurs in good measure with the evaluation of GAO. In reviewing the accomplishments of 66 grants, GAO found that 44 percent either had fully met or were meeting their objectives, another 37 percent had partially met or were partially meeting their objectives, while only 18 percent had not met their objectives. GAO's success rate for this particular sample of grants closely parallels the Foundation's own findings on the nearly 1200 projects it has funded since its creation.

This record of performance is exceptionally good for a foreign assistance program. It is particularly noteworthy given that so many of the Foundation's grants are experimental and that we are mainly supporting organizations of poor people whose training and experience in managing projects are limited. Nonetheless, the record can be improved and, indeed, might have looked even better if, as the GAO recommends, the objectives of some projects had been more realistically defined.

The remainder of this letter explores each of GAO's recommendations and indicates what the Foundation has already done, is now doing, or proposes to do to achieve the objectives of the recommendations. While we believe that the recommendations are sound and would improve the Foundation's operation, our current staffing level makes it difficult for us to pursue them all. Each of the recommendations involves additional commitments of Foundation staff attention, which, in

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the end, has to be judiciously allocated among the competing objectives of analysis and review of grant proposals, monitoring of projects, coordination with other agencies, and dissemination and learning activities. We can improve in each area, but limitations on our staff size will constrain our efforts.

Recommendations

The GAO report makes the following recommendations:

 require that the grantees develop specific objectives which the staff believe are attainable.

The report states that "project goals and objectives were sometimes broad, overly ambitious and difficult to achieve" and "project results and beneficiaries were sometimes difficult to measure and identify." GAO indicated that about one-third of the projects they visited were deficient on this score. We agree that poorly defined, overambitious goals are often detrimental to project success. Our experience suggests that project objectives ought to be specific, and that local organizations are best able to tackle discrete tasks which have a clear beginning and end. As the GAO report finds, the great majority of our projects does have concrete and specific purposes. In light of the continuing progress we have made toward this goal in the last few years, no further action may be necessary. Our regional directors and representatives recognize the importance of making sure that, prior to the approval of a grant, the grantee organization and the Foundation have agreed on (1) the specific objectives that the project is designed to accomplish; (2) the tasks that must be carried out to meet these objectives; and (3) whom the project is expected to benefit and the benefits they would receive.

2. "... exercise control over the use of funds by the grantees."

GAO investigators found that "grants were sometimes poorly managed and grant funds inadequately controlled," identifying this deficiency in 18 of the 66 grants studied. Grant funds must be used in accord with stated grant purposes, and the Foundation has the obligation to monitor expenditures. The formulation of clear, specific objectives for each project is important for effective monitoring. It is also important that the Foundation adhere to its established policies regarding regular and

timely visits to grantee institutions, periodic program and financial reporting, and the conduct of audits. As GAO observes, we have instituted new procedures for identifying delinquent reports, and will continue our policy of withholding disbursement of funds when reports or audits are delinquent, of investigating problems quickly, and of initiating corrective measures. Foundation staff are committed to making greater efforts in field trips to going beyond the intermediate organizations that are sometimes our formal grantees and meeting with actual beneficiary groups.

In monitoring projects, Foundation staff recognize that our task is not simply to hold grantees rigidly to the original project objectives. When unforeseen circumstances arise, grantees should be encouraged to try new solutions and take advantage of new opportunities and ideas. This does not mean that grantees should chart their own courses without regard to agreed objectives. It does mean that our representatives should be well-informed about the evolution of each project and flexible in their approach to its monitoring.

- 3. "... clearly define a monitoring policy which calls for the staff representatives to:
 - -- carefully plan monitoring activities to provide coverage of all active grants to ensure timely identification of problems causing bottlenecks or cases of mismanagement of funds,
 - -- play an active, constructive role assisting grantees who are faced with problems hindering project progress, to identify possible options or sources of help, and
 - -- regularly check, during country visits, on grantees who are overdue in fulfilling reporting requirements."

GAO recognizes that the Foundation's monitoring should be consistent with its noninterventionist approach to development assistance. As the report observes, the Foundation gives grantees the freedom and autonomy to solve their own problems and learn from their mistakes, and does not try to direct or influence the course of a project.

The Foundation's policy toward grant monitoring is clear: each grantee should be visited at least once a year by a Foundation representative, and reporting and auditing must be done on a regular and timely basis. We believe the

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policy is right, but we may need to improve its implementation. Specifically, monitoring procedures ought to include a combination of (1) providing initial guidance to grantees on where they can turn for technical assistance and making sure that the grant itself provides funds for such assistance; (2) planning and monitoring of representatives' field trips to ensure that each grantee is visited at least once a year; (3) systematically verifying the reporting status of each grantee and requiring that grantees delinquent in reporting be visited on the next field trip of the representative; and (4) making better use of local consultants with technical expertise who can help grantees assess their problems and work toward solutions.

4. "... establish explicit policy guidelines and operating procedures for an active coordination program, setting forth the responsibilities expected at each staffing level."

We agree with GAO about the importance of coordinating our activities with other development assistance agencies. The sharing of information and ideas can strengthen our efforts and benefit the people we are trying to assist. We are striving to improve the quality and increase the effectiveness of our coordination with other agencies.

Our efforts at coordination have been most effective in those countries where a Foundation representative has worked for some time and has been able to become familiar with the operations of other aid organizations. turnover, whether in the Foundation or in other organizations, often frustrates coordination. While coordination is encouraged at all levels of the Foundation, we have found it difficult to formulate a single embracing policy for several reasons: (1) decision-making patterns vary among organizations such that in some cases coordination with the central office is critical while in others coordination is more usefully carried out with field staff; (2) the operations of different organizations vary from country to country (e.g., AID works in some countries of Latin America but not in others and its program emphases from one country to another are often quite different); (3) the Foundation's own program varies from country to country; and (4) organizations vary in their ability and willingness to coordinate with the Foundation.

Nonetheless, we think that our efforts at coordination could be made more systematic. We will continue to maintain our regular exchanges with the Inter-American

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Development Bank's Small Projects Fund and continue our current practice of having representatives consult with U.S. embassies and AID missions on each field trip. In addition, we are planning to review periodically with representatives and regional directors the kind and quality of coordination which the Foundation maintains with other organizations in each country, and to introduce improvements where indicated.

5. "... establish a systematic approach to information dissemination so that valuable experiences are effectively communicated within IAF and to interested agencies, organizations, and individuals."

Since becoming president of the Foundation two years ago, I have given particular importance to strengthening our learning, evaluation, and dissemination activities. These activities are essential for fulfilling our charter to be experimental, for improving the quality of our grant-making, for assisting our grantees in their development efforts, and for communicating the lessons of our experience to other assistance organizations. Our achievements so far and plans for further improvement in these areas include the following:

- (a) We created in June 1980 an Office of Planning and Research to give greater emphasis to research and analysis in the Foundation's work and to strengthen the Foundation's capacity for evaluation and dissemination.
- (b) We continue to publish an annual report, and are bringing out our Journal twice a year. The content and format of both publications have been substantially improved, but we are seeking ways of making them still better and getting them to the people and organizations that can use them effectively.
- (c) We are systematically reviewing important segments of our program. The GAO report mentioned two studies--on our work in rural credit and health--that have been completed. Currently in progress are some ten other studies on the Foundation's activities in such areas as self-help housing, women and development, legal assistance, worker-managed enterprises, and small businesses. As with the health and rural credit studies, the results will be circulated among staff, and the authors invited to present seminars at the

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Foundation on their findings. The completed studies will also be (1) disseminated to development institutions that have a particular interest in the subject matter, (2) shared with our grantees, and (3) summarized for publication in our <u>Journal</u> for wider circulation.

- (d) Each year we will be preparing reviews of our activities in four different countries. Three reviews on Colombia, Guatemala, and the Dominican Republic have been completed so far this fiscal year.
- (e) We have published and widely disseminated a paper on "The Lessons of the Inter-American Foundation Experience." AID found that "the conclusions are generally valid and significant and should be helpful to the development community." Our plans are to revise and substantially expand the paper. We have also completed a statistical report on the Foundation's ten years of grant-making, and commissioned a series of oral histories of Foundation-assisted grassroots organizations which will be published as a book.
- (f) We are now developing more systematic procedures for evaluating individual grants. We will continue to require a brief assessment of the results of each grant prior to closing the project or recommending supplemental support. We plan each year to select a sample of projects for more in-depth evaluation. Criteria for selection will include the size and significance of the project and the value of the lessons that might be drawn from it. The results of the evaluations will be shared among staff and grantees, and some will be published as discussion papers or as articles in our Journal.
- (g) We have expanded our support for research and analysis by Latin American institutions on issues of concern to the Foundation, including the problems of poor and disadvantaged groups, alternative strategies for local and community development, and new economic opportunities for low-income people.

Taken individually, each of GAO's recommendations makes good sense and ought to be pursued. But every one of them also places new demands on our staff resources and would involve increased overhead expenses. While some savings in staff time can be achieved by carrying out certain tasks more efficiently,

we will--as I stated at the outset of this letter--have to allocate scarce staff resources among the various tasks of monitoring, evaluation, coordination, and dissemination. And we will have to persist in our search for the right balance between those tasks and our commitment to high quality and expeditious grant-making.

My colleagues and I have found the GAO review helpful to our thinking about ways of improving the Foundation's operations. We would appreciate your providing us with 150 copies of the printed report.

Sincerely yours,

Peter D. Bell President

INTER-AMERICAN FOUNDATION COMPARATIVE STATEMENT OF FINANCIAL CONDITION AT SEPTEMBER 30, 1981 and 1980 a/

	ASSETS 1981 1980			
	(Unaudited	1)	Transfer and the second	
Funds with U.S. Treasury: Appropriated funds	(0))	,		
(note 2) Social Progress Trust	\$16,708,424		\$12,454,027	
Fund (note 3)	12,813,433		3,574,449	
Undeposited collections	107		251	
Cashier imprest fund	1,287		1,925	1
Total cash		\$29,523,251		\$16,030,652
Due from Social Progress Trust Fund (note 3)		28,852,624		49,227,303
Accounts receivable		2,356		17,535
Employee travel advances		32,875		25,715
Office furniture and equipment	179,474		165,079	
Less allowance for depreciation	120,240	59,234	102,495	62,584
Total assets		\$58,470,340		\$65,363,789

a/The Inter-American Foundation's comparative financial statements for fiscal years 1980 and 1981 are included for informational purposes. The 1981 statements are unaudited. The 1980 statements were audited by GAO (ID-81-50, May 4, 1981).

APPENDIX II APPENDIX II

LIABILITIES, DEFERRED FUNDS, AND INVESTMENT OF U.S. GOVERNMENT

	1981	1980	
· (U1	naudited)		•
LIABILITIES			
Accounts payable: Trade accounts Approved grant	\$167,490	\$111,149	
disbursement requests Owed to U.S. Government	90,102	738,070	
agencies Accrued consultant	51,015	13,292	
fees	31,926	12,953	
Accrued annual leave	106,250	112,753	
Accrued salaries and benefits	62,823	53,051	
Cashier funds advanced by Treasury	3,000	3,000	
Total liabilities	\$512,60	6	\$1,044,268
Obligations (note 4)			
DEFERRED FORTION OF SOCIAL PROGRESS TRUST FUND			
(note 3)	28,852,62	4	49,227,303
INVESTMENT OF U.S GOVERNMENT (Schedule 2)	29,105,11	<u>o</u>	15,092,218
Total liabilities, deferred funds, and investment	\$58,470,34	0	\$65,363,789

INTER-AMERICAN FOUNDATION COMPARATIVE STATEMENT OF CHANGES IN THE INVESTMENT OF U.S. GOVERNMENT FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1981 and 1980

	1981		1980		
	Appropriated Funds	Appropriated Social Progress		Social Progress Trust Fund	
Initial Investment	(Unau \$50,000,000	dited) \$31,000,000	\$50,000,000	\$31,000,000	
Add: Donations Additional	43,965	-	21,365	-	
investment	38,408,000 88,451,965	96,000,000 127,000,000	22,582,000 72,603,365	$\frac{96,000,000}{127,000,000}$	
Less: Lapse of unobligated funds	-	21,585,369	-	21,585,369	
Deobligated funds					
Prior years	-	1,225,157	-	534,739	
Current year	•	1,310,092		690,418	
Net available funds	· <u>88,451,965</u>	102,879,382	72,603,365	104,189,474	
Less: Grant dis- bursements and expenses					
Prior years	61,063,096	51,410,222	50,522,281	41,788,150	
Current year	11,017,090	9,883,205	10,540,815	9,622,072	
Total	72,080,186	61,293,427	61,063,096	51,410,222	
Deferred portion of Social Progress Trust Fund					
(note 3)		28,852,624		49,227,303	
Investment of U.S. Government	\$16,371,779	\$12,733,331	\$11,540,269	\$3,551,949	

APPENDIX II

INTER-AMERICAN FOUNDATION COMPARATIVE STATEMENT OF GRANT DISBURSEMENTS AND EXPENSES FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1981 and 1980

		1981 (Unaudited)		1980
SOCIAL PROGRESS TRUST FUND: Grant disbursements		\$9,546,374		\$9,576,817
Net loss on foreign currency exchange		336,831		45,255
Total		\$9,883,205		\$9,622,072
APPROPRIATED FUNDS:				
Grant disbursements		\$7,299,371		\$7,354,161
Administrative expenses:				
Employee salaries and benefits Travel and transpor-	\$2,060,301		\$2,009,055	
tation Depreciation	370,832 18,047		329,485 21,483	
Office and equipment rental	290,649		181,852	
Telephone, postage and supplies Contracted services and	205,172		140,854	
other expenses	772,718		503,925	
Total administrative expenses		3,717,719		3,186,654
Total disbursements and expenses financed with appropriated funds		\$11,017,090		\$10,540,815
Total disbursements and expenses		\$20,900,295		\$20,162,887

INTER-AMERICAN FOUNDATION COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1981 and 1980

	1981	<u>1980</u>
Funds provided:	(Unaudited)	
Social Progress Trust Fund (note 3):		
Deferred portion, beginning of year	\$49,227,303	\$31,583,449
Additional amount agreed to be made available		48,000,000
Total	49,227,303	79,583,449
Less deferred portion, end of year	28,852,624	49,227,303
Total available during year	20,374,679	30,356,146
Less lapse of unobligated and deobligated funds	1,310,092	17,182,125
Net amount provided by Social Progress Trust Fund	19,064,587	13,174,021
Appropriated funds	15,826,000	12,582,000
Items not decreasing cash: Depreciation and loss on disposal of equipment	18,169	21,483
Decrease in accounts receivable and travel advances	8,019	-
Increase in liabilities	-	752,452
Donations	22,600	20,000
Total funds provided	\$34,939,375	\$26,549,956

APPENDIX II APPENDIX II

FUNDS APPLIED AND CHANGE IN CASH BALANCE

	1981	1980	
Funds applied:	(Unaudited)	•	
Grant disbursements and expenses:			
Social Progress Trust Fund	\$ 9,883,205	\$ 9,622,072	
Appropriated funds	11,017,090	10,540,815	
Total disbursements and expenses	20,900,295	20,162,887	
Purchase of fixed assets	14,819	3,407	
Increase in accounts receivable and travel advances	-	23,932	
Decrease in liabilities	531,662		
Total funds applied	\$21,446,776	\$20,190,226	
Increase/(decrease) in cash	\$13,492,599	\$ 6,359,730	
Change in cash balance:			
Cash balance, end of year	\$29,523,251	\$16,030,652	
Cash balance, beginning of year	16,030,652	9,670,922	
Increase/(decrease) in cash	\$13,492,599	\$ 6,359,730	

NOTES TO FINANCIAL STATEMENTS

1. The Inter-American Foundation, a U.S. Government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f). Its purpose is to provide support for developmental activities designed to achieve improved conditions for Latin Americans and Caribbeans. Until February 1972, the Foundation operated under the name of the Inter-American Social Development Institute. The name was changed pursuant to Public Law 92-226 (406(2)).

Significant accounting policies:

- a. Foundation accounting records are maintained on an accrual basis.
- b. Depreciation is computed on the straight-line method based on the useful life of the assets. Depreciation is not charged in the year of acquisition, and a full year's depreciation is charged in the year of disposal. Furniture and equipment acquired at a unit cost of less than \$300 are charged to operating expense.
- 2. In 1969 enabling legislation authorized a transfer of \$50,000,000 of appropriated funds to the Foundation to remain available for Foundation use until expended.

APPENDIX II

For fiscal year 1979, Congress provided an additional \$10,000,000, in fiscal year 1980 an additional \$12,582,000, and in fiscal year 1981 an additional \$15,826,000 for Foundation activities for a total U.S. Government investment of appropriated funds of \$88,451,965.

3. The Social Progress Trust Fund, which is owned by the U.S., is administered for the U.S. by the Inter-American Development Bank. Section 36 of the Foreign Assistance Act of 1973 provided for the periodic transfer of unencumbered capital resources of this fund, and of any future repayments or other accruals otherwise payable to the fund, to the Inter-American Foundation for use in its program. These resources and future repayments consist of foreign currencies in Latin American countries. The Congress intended that the Bank would transfer a substantial and gradually increasing proportion of the fund to the Foundation.

On December 20, 1973, the Foundation and the Bank entered into an agreement to carry out this congressional mandate. The agreement provided that the Bank would make available \$30 million in foreign currencies to finance Foundation-sponsored social development projects in member countries of the Bank during calendar years 1974 through 1976. In August 1974 this amount was increased to \$31 million.

APPENDIX II APPENDIX I

The availability of \$5,093,662 of these funds lapsed in fiscal year 1977 when they had not been obligated by the Foundation by the end of the 3-year period.

In March 1976 the agreement was amended to provide the Foundation with an additional \$48 million in foreign currencies for use during calendar years 1977 through 1979. The availability of \$16,491,707 of these funds lapsed in fiscal year 1980 when they had not been obligated by the end of the 3-year period.

Two important reasons why a sizable amount of Social Progress Trust Fund monies available to the Foundation has not been utilized are limited distribution among the countries in which the Foundation operates and categorical limitations on the types of projects that can be funded. The categorical limitations have been changed and are not as much of a problem under the terms of the 1980 - 1982 agreement.

Additional lapses totaling \$2,535,249 occurred when some previously obligated funds were deobligated (\$57,440 in fiscal year 1978, \$477,299 in fiscal year 1979, \$690,418 in fiscal year 1980, and \$1,310,092 in fiscal year 1981).

APPENDIX II

In March 1980 the Bank agreed to make an additional \$48 million in foreign currencies available to the Foundation during calendar years 1980 through 1982, but with a new procedure for transferring the funds. Formerly, the Bank disbursed the foreign currencies directly to Foundation grantees. Under the present arrangement, the Bank transfers the currencies to the U.S. Treasury, which uses them to meet its needs for local currencies in the countries involved. As these expenditures are made, the Treasury credits the Foundation's Treasury account with equivalent amounts of U.S. dollars based on in-country currency exchange rates in effect at the time. When local currencies are needed for disbursements to Foundation grantees, the Treasury purchases the required currencies with these funds.

Because the revised procedure involves the conversion of foreign currencies to U.S. dollars, currency exchange gains or losses sometimes occur. The net amount of these gains and losses is shown in the Foundation's financial statements. Also shown are the deferred portion of the Social Progress Trust Fund due from the Bank or in process of being transferred to the U.S. Treasury and that portion in the Foundation's account with the Treasury.

The status of the Foundation's interest in the Social Progress
Trust Fund at the end of its 1981 and 1980 fiscal years is
summarized below.

	·	9/	9/30/80			
	Total amount agreed to be	(Una	(Unaudited)			
	made available		\$127,000,000		\$127,000,000	
	Less: Adjustment for loss of funds not obligated during periods of availability	\$22,810,526	:	\$21,585,369	÷	
	Deobligation of unused funds	1,310,092	24,120,618	1,225,157	22,810,526	
	Net available		102,879,382		104,189,474	
•	Cumulative disbursements and expenses:					
	Grant disbursements	\$60,956,596	\$	\$51,364,967		
	Currency exchange	336,831	61,293,427	45,255	51,410,222	
	Remaining interest in fund assets		41,585,955		52,779,252	
	Undisbursed obligations		12,229,680		12,234,225	
	Available for future obligations		\$29,356,275		\$40,545,027	
4.	At September 30, 1981 and September	er 30, 1980, Fou	undation undis	bursed		
	obligations were:					
	Appropriated funds		\$13,178,494		\$9,362,096	
	Social Progress Trust Fund		\$12,229,680		\$12,234,225	
	Total undisbursed obligations		\$25,408,174		\$21,596,321	



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