

March 7, 1988

## "PRIVATE VOLUNTARY ORGANIZATIONS" BETRAY THEIR TRUST

### INTRODUCTION

To their supporters, private voluntary organizations, known widely as PVOs, provide effective and flexible food and medical disaster relief abroad. PVOs registered with the U.S. Agency for International Development (AID) spent a record \$2.467 billion in cash and commodities worldwide in 1985. Yet half of this was hardly private; it came directly from the United States Treasury or from international agencies, such as the United Nations, supported by the U.S. government. Critics charge that many PVOs have become little more than wards of the state and are increasingly dependent on federal largess for a growing number of programs recipient countries neither need nor want. Eligible for enormous sums of federal cash, these PVOs predictably have abandoned once vibrant private fund-raising efforts.

**Neither Private nor Voluntary.** Increasingly, U.S. private voluntary organizations are neither private nor voluntary. They are either extensions of AID policy or have become politically powerful enough, thanks to strong congressional constituencies, to work directly against Administration policy at taxpayer expense. In El Salvador, PVOs have been used to promote an economically unsound land reform in an attempt to bolster the rocky regime of President Jose Napoleon Duarte. Meanwhile, in South Africa, the African-American

---

This is the fourth in a series of studies examining the U.S. Agency for International Development. It was preceded by *Backgrounders*, No. 618, "Inspector General Audits Reveal Foreign Aid Failures and Boondoggles" (November 23, 1987), No. 599, "Seven Steps to Improve U.S. Bilateral Foreign Aid" (August 19, 1987), and No. 592, "A New Rx is Needed for World Health Care" (July 9, 1987).

1 United States Agency for International Development, "Voluntary Foreign Aid Programs," Washington, D.C., 1985, p. 23. As of October 10, 1987, AID had yet to publish such a report for 1986.

Labor Center, a division of the AFL-CIO that is 100 percent funded by the U.S. government, assists the efforts of the most radical trade unionists, many of whom either have strong ties to, or are members of, the terrorist African National Congress. These radical union leaders call for the dismantling of the free enterprise system in any post-apartheid society and endorse the principles of Marxism-Leninism, developments hardly consistent with U.S. policy or interests in the region.

As official U.S. aid to PVOs has increased, the AID Inspector General has uncovered an alarming pattern of waste and abuse that, at the least, has contributed to thousands of needless deaths in developing countries.

PVO aid is clearly out of control. Congress added more than \$279 million to the Administration's fiscal 1986 request, boosting federal PVO aid to \$1.05 billion. For fiscal 1989, the figure could exceed \$1.4 billion. In addition, the ability to monitor the effectiveness of PVO aid is suspect. For this purpose, AID relies, in part, on the Advisory Committee on Voluntary Foreign Aid, a body sympathetic to, and even partially composed of, members of the PVO community. The committee's reports and working papers are prepared by the PVOs themselves.

**PVO Lobby.** The committee is just one way the federal government funds what has come to be known as the "PVO lobby." This structure transcends religious, social, and political lines and has been highly effective in securing ever increasing amounts of federal funds for PVOs.

To be sure, in almost all cases, PVOs spend funds better than would AID. Nevertheless, the federal government should not be giving PVOs funds for projects that undermine official U.S. policy. Nor should PVOs receive U.S. funds for economic policies that prolong Third World poverty. To make matters worse, the infusion of taxpayer funds to PVOs substantially reduces the PVOs' incentives to raise money from the private sector. There is ample evidence of this. As a result, PVOs can abandon their responsibility to educate and motivate Americans about private foreign aid.

**Illegal Activities.** With the evidence found by the AID Inspector General of bribery, fraud, waste, and abuse in PVO programs, the time has come to reevaluate federal aid to these putative "private" organizations. PVOs that run effective, well-managed programs should be rewarded. But PVOs that view management as a foreign language, that engage in illegal or questionable activities, or that undermine U.S. foreign policy should receive no U.S. funds. All PVOs, meanwhile, should be encouraged to increase their contributions from private sources.

To accomplish this, the federal government should:

◆◆ Raise the minimum ceiling of private sector support that a PVO must have to qualify for federal funds and eliminate all exemptions. That minimum currently is 20 percent of the PVO budget.

◆◆ Require PVOs to match with private funds all federal aid they receive with the exception of surplus food distribution under Public Law 480.

## **AID AND PVOs: THE TENSION OF DEPENDENCE**

Federal cash and commodities aid to PVOs has grown seven-fold between 1973 and 1985. AID support for PVOs surged from \$80 million in 1964, to over \$1.2 billion in fiscal 1987, with almost half of this increase coming during the Reagan Administration. Management systems at AID and most PVOs, however, have not kept pace with this dizzying growth. The AID Inspector General's small staff has had the resources only to monitor cursorily how PVOs use U.S. taxpayer funds. Yet even random GAO inspections find that PVOs have violated or ignored AID financial reporting regulations, have bribed foreign officials (a practice that PVOs refer to as paying "salary supplements"), and maintained sloppy, creative, or deficient bookkeeping records. According to the Inspector General, some PVOs have diverted funds intentionally to non-approved purposes, have abused letters of credit, and have administered programs that fell far short of their promised objectives.

As Inspector General investigators uncovered and PVO executives later admitted, discontinuities often exist between what PVOs say they will do and what they actually do.<sup>2</sup> And since PVOs usually do not qualify for federal funds unless they have a project in a foreign country, they at times go to great lengths to win foreign approval for a project. Some organizations actually have offered foreign officials "salary supplements" to accept PVO projects. PVO executives interviewed for this report admit that salary supplements are widespread and are seen as a "cost of doing business."

### **"Salary Supplements"**

In the worst case, these supplements are paid to gain foreign approval of PVO projects, thus paving the way for AID funding. In their most benign form, they are used as salary sweeteners to convince host country government employees to remain with PVO projects. In a written exchange on May 25, 1987, between Senator Malcolm Wallop, the Wyoming Republican, and former AID Administrator M. Peter McPherson, McPherson refused to characterize these payments as "bribes," but did admit that, in several instances, "improper" salary supplements were paid.

Salary supplements had come to light as early as 1980, when a federal investigation of Africare, a Washington-based group that focuses its relief and development efforts in Africa, and one of its projects in Upper Volta (now Burkina Faso) concluded, "We believe it is a dangerous precedent to provide salary supplements to [foreign] personnel to entice them to implement AID-financed projects." State Department cables and other documents reveal that the problem is widespread with the practice occurring from Ecuador to Egypt,

---

<sup>2</sup> U.S. AID, Audit Report No. 9-000-87-4, "Cash Advances to Private Voluntary Organizations Under Letters of Credit," March 25, 1987, pp. 9-10.

where salary supplements to government officials could cost up to \$30 million in 1987. A June 1987 State Department cable states that AID's official policy is to "discourage salary supplements except in very special circumstances" and then details a laundry list of acceptable loopholes, including the omnibus if "the supplements are judged essential to the achievement of project objectives."

Despite the revelations of Africare's use of supplements dating back to at least 1980, McPherson maintains that, "Over the years, salary supplements did not surface as a potential agency-wide issue until we recently became aware of a serious problem with this practice in Ecuador."<sup>3</sup> A May 1987 AID report noted, however, that salary supplements were paid in eight out of 23 Latin American and Caribbean countries where AID or AID-financed PVOs had operations.

When salary supplements are used to entice host governments to accept AID-PVO projects, it is obvious that indigenous groups or persons would have little incentive to continue with the project once a PVO withdraws. Yet the likelihood of projects continuing is a major factor considered by AID in making a grant to PVOs.

Salary supplements are symptomatic of PVOs' fierce competition for AID funds which now comprise up to 99 percent of some PVO budgets. AID's funding of PVOs increased dramatically in the wake of the 1980 report of the Presidential Commission on World Hunger. The Commission recommended doubling the amount of AID funds given to PVOs between 1980 and 1985, a proposal heartily endorsed by AID. Work of the Commission also inspired the creation of Biden-Pell grants, named after Democrat Senators Joseph Biden of Delaware and Claiborne Pell of Rhode Island. These grants are designed to foster increased awareness and support for PVO programs related to hunger and development assistance, often in U.S. public schools.

### **Management Failures**

The Commission assumed that PVOs could handle the extra federal assistance. It soon became apparent, however, that neither AID nor even some of the largest and most respected PVOs had adequate managerial controls to prevent serious problems. A March 1987 AID audit noted, "Management controls within AID's Office of Private and Voluntary Cooperation [PVC] were not sufficient to ensure Private and Voluntary Organization compliance with their agreed upon cost sharing responsibilities....Grantees were not making their required contributions and some in-kind contributions were overvalued or were not verifiable. Action was not taken by AID when recipients failed to fulfill their cost sharing obligations."<sup>4</sup>

---

<sup>3</sup> M. Peter McPherson, letter to Hon. Malcolm Wallop, May 25, 1987.

<sup>4</sup> U.S. AID, Audit Report No. 9-000-87-3, "Audit of Cost Sharing/ Matching Grants With Private and Voluntary Organizations," March 23, 1987, p. 4.

## **International Voluntary Services**

Over the past five years, AID's own Inspector General has compiled a litany of PVO management failures while AID has toiled to keep failing PVOs afloat. Offending PVOs cited by the Inspector General include International Voluntary Services. IVS received a \$2.4 million multiyear AID grant in 1985 to provide management skills and training to rural poor. IVS was supposed to match the first \$800,000 from AID with \$700,000 of its own funds.

According to the Inspector General's report, an IVS donor, La Buena Fe Association, gave \$78,860 to IVS, which then returned it to La Buena Fe Association but kept the original transaction on the books as a donation. At least two other organizations made similar phantom contributions to IVS for a total of between \$170,000 and \$300,000. La Buena Fe Association gave IVS another \$8,500 on the condition that IVS spend the money on 17 round trip air fares between the U.S., Canada, and Honduras so that La Buena Fe Association's board of directors and their spouses could observe the organization's field projects in Honduras. La Buena Fe Association gave IVS another \$3,000 so that IVS could buy the La Buena Fe Association a truck from "Dave's Body Shop" in Missouri. The Inspector General quickly uncovered this crude money laundering scheme designed to mask IVS's dismal inability to attract private funds.

## **Private Agencies Collaborating Together**

IVS also received \$90,000 in pass through contributions from Private Agencies Collaborating Together (PACT); this is a PVO virtually 100 percent funded by AID for the ostensible purpose of promoting "a coordinated approach to planning for overseas programs, to improve the capability of private agencies and to provide information and services to member agencies."<sup>5</sup> The PACT grant to IVS was counted by IVS — and AID — as private assistance, even though PACT's money comes from the U.S. Treasury. The Inspector General estimated that IVS would fall short on its contributions during the three-year life of the grant by \$860,000.<sup>6</sup>

PACT itself also came in for the Inspector General's criticism. PACT often funds PVO projects considered too experimental for immediate and direct AID support. Examples: handicraft marketing in Botswana, dry season irrigation in Ghana, and establishing credit unions in Kenya. PACT has claimed to have channeled over \$35 million in AID support to various PVOs and says it has matched that amount with private contributions. The Inspector General doubts this claim from an organization that, in 1985, received almost 98 percent of its total \$4.26 million budget from the federal government.

---

5 U.S. AID "Voluntary Foreign Aid Programs, *op. cit.*, p. 18.

6 AID Audit Report No. 9-000-87-3, p. 9.

When challenged, PACT said it could support only \$17.5 million of the \$35 million claim. The Inspector General reviewed \$8.77 million of that, but found documentation for only \$1.6 million. Clearly, PACT and its subrecipients had been exaggerating.<sup>7</sup> The results of this 1985 investigation of PACT should have come as no surprise to AID. An AID official, in a 1982 internal memo, cautioned that a PACT funding proposal "is vague on reporting requirements and evaluation of grant activity...."<sup>8</sup> The memo added that PACT not only was a "cherished" funding source for other PVOs, but that it had served as an AID clearinghouse for its relations with PVOs. Begun with a \$149,000 AID grant in 1972, PACT received more than \$4 million in 1985. Over 88 organizations are members of PACT and almost thirty PVOs receive PACT funds.

## **AID Rescues**

AID's relationship with PACT and its subrecipients demonstrates a history of dependence on U.S. taxpayer support. AID historically has gone to great lengths to keep recipient organizations in business and government funded, at times against the recommendations of its auditors. In the case of AID and PACT grant recipient Partnership for Productivity (PfP), the Inspector General asserted, "AID has had evidence for several years that PfP had serious financial problems."<sup>9</sup> As early as 1983, the Inspector General found that PfP likely was insolvent. PfP's own auditors found it insolvent on March 31, 1985, and the Inspector General reported that it remained insolvent as of August 31, 1986.

Despite this, AID doubled its cash advances to PfP between April 1, 1985, and March 31, 1986, much of it financing expenditures that had not been approved by AID. PfP continued to utilize a letter of credit to make large drawdowns from its AID grant until November 1986, years after it had first been discovered that PfP was committing AID funds to non-approved purposes. The Inspector General concluded that "PfP's existence was perpetuated only because AID continuously advanced funds that PfP used for working capital, while never repaying the advance."<sup>10</sup> PfP and its obligations eventually were assumed by one of the world's largest and most famous PVOs, the Cooperative for American Relief Everywhere (CARE) for ten cents on the dollar.

AID similarly rescued Volunteers In Technical Assistance (VITA), a Rosslyn, Virginia, organization that staffs development projects abroad with skilled volunteers who provide "integrated development system design" and other services such as "information systems analysis training." In 1985, some 89 percent of VITA's \$3.6 million annual budget came from AID.

---

<sup>7</sup> *Ibid.*, p. 12.

<sup>8</sup> U.S. AID, "Action Memo for the Assistant Administrator," August 10, 1982, p. 9.

<sup>9</sup> U.S. AID, Audit Report No. 9-000-87-4, March 25, 1987, p. 10.

<sup>10</sup> *Ibid.*

## **Catholic Relief Services**

Not even America's most distinguished and respected PVO, Catholic Relief Services (CRS), can escape difficulties. CRS distributed over \$700 million worth of surplus food in 1984 and 1985. Of its 1985 budget of \$437.3 million, \$331.9 million, or 75.9 percent, came from federal sources. Serious charges have been levied against CRS management. AID's Inspector General, in a 1986 audit, accused CRS of violating AID regulations and improperly retaining surplus government funds realized from the sale of P.L. 480 food.<sup>11</sup> These alleged infractions pale compared to charges made by former CRS Regional Director for Burundi, James MacGuire.<sup>12</sup> He asserts that CRS:

- ◆ Diverted funds raised for Ethiopian famine relief victims to other purposes.
- ◆ Charged Kenyan famine victims for relief food.
- Improperly transferred funds out of recipient countries and then intentionally stalled an AID audit of the recipient contribution fund.
- ◆ Threatened to delay Ethiopian inland food distribution until AID agreed to assume the shipping costs.

Many of MacGuire's charges were cited in a 1986 AID audit, the results of which CRS vociferously contests.<sup>13</sup> Yet, according to MacGuire, CRS food and nutrition programs are being dismantled after unfavorable reviews in Tanzania, Ghana, and Lesotho. Meanwhile, CRS programs in Burkina Faso, Peru, Egypt, and Mexico are under a cloud of criticism.

Tension between PVOs and AID has grown as PVOs have become increasingly dependent on the agency as their primary resource. A 1984 study commissioned by AID concluded, in part, that some PVO executives "feel that compliance with government regulation is their major problem."<sup>14</sup> This preoccupation is understandable given government funding levels.

## **LEVELS OF GOVERNMENT SUPPORT FOR PVOs**

To qualify for AID funds, a PVO must receive at least 20 percent of its funding from non-AID sources. While some PVOs receive private contributions well in excess of these requirements, many do not, partly because of AID's seventeen exemptions to this modest requirement. These exemptions include any contract with the U.S. government or

---

11 U.S. AID, Audit Report No. 86-09, September 30, 1986, Executive Summary.

12 James MacGuire, "Scandals In Catholic Relief," *National Review*, July 3, 1987, p. 26.

13 U.S. AID, Audit Report No. 86-09.

14 C. Stark Biddle, "The Management Needs of Private Voluntary Organizations," AID Contract No. PDC-0250-0-00-4035-00, May 2, 1984, p. 1.

international organization, P.L. 480 food, and all in-kind contributions. In 1985, the last year for which figures are available, the private/public resource mix for 23 leading PVOs was:

<b>PVO</b>	<b>Total Resources</b>	<b>From U.S. Government</b>	<b>%U.S. Government</b>
(in millions of dollars)			
African-American Institute	14.40	12.10	84.1
African-American Labor Center	6.70	5.26	77.9
Africare	8.44	5.85	69.2
Agricultural Development Cooperative International	6.03	5.90	97.8
Asian-American Free Labor Institute	5.30	5.20	98.3
Catholic Relief Services	437.28	331.90	75.9
Centre for Applied Linguistics	3.69	3.42	92.5
CARE	273.56	154.30	56.4
Cooperative League of USA	4.50	3.50	78.4
International Voluntary Services	1.67	722.00	43.1
National Association of Partners for Alliance	4.24	3.20	73.4
New Transcentury Foundation	4.54	4.50	99.2
OIC International	4.18	3.28	78.4
Partnership for Productivity	2.89	2.54	88.2
Pathfinder Fund	6.27	5.47	87.3
Planned Parenthood	29.87	18.28	61.2
Phelps-Stokes Fund	4.65	3.55	76.4
PACT	4.26	4.17	97.9
Technoserve	3.38	2.00	59.0
VITA	3.59	3.20	89.0
Booker T. Washington Foundation	4.62	4.08	88.5
World Education Inc.	1.19	.90	75.3
World Relief Vision Organization	25.74	23.50	91.3

Source: U.S. Agency for International Development

## **ROAD TO PVO DEPENDENCE**

The Neutrality Act of 1939 required U.S. voluntary agencies to register with the State Department. At the time, many were providing relief to war-ravaged Europe. Shortly after the U.S. entered World War II, the President's War Relief Control Board began licensing and regulating relief organizations. In 1946, the State Department formed the Advisory Council on Foreign Aid (ACFA), which assumed the powers of the War Relief Control Board.



Registered PVOs became eligible in 1947 for reimbursements from the federal government for the costs of shipping aid. This was extended in 1954 to the Food for Peace Program or P.L. 480, which provides for the distribution of surplus U.S. agricultural stocks abroad. By 1977, AID expanded eligibility requirements for PVOs that registered for federal assistance and created the office for Private and Voluntary Cooperation to act as a liaison with PVOs.

In 1980, responsibility for registering PVOs shifted from ACFA to AID, which employs a myriad of devices to fund and supply PVOs including:

**Operational Program Grants.** OPGs are administered by AID missions and regional bureaus and finance in-country/regional field projects. A maximum AID contribution of 75 percent is supposed to be matched by 25 percent from non-AID sources. Generous valuations of in-kind contributions from non-AID sources effectively circumvent this requirement.

**Matching Grants.** AID contributes up to 50 percent of program costs; however, PVOs can give in-kind contributions large valuations. Operational Program Grants, Matching Grants, and Partnership Grants can cover a broad spectrum of activities including agricultural and rural development, nutrition, population planning, health, child survival, and education.

**Partnership Grants.** AID provides up to 50 percent of the costs for these five-year project authorizations jointly agreed to by AID and the PVO involved.

**Child Survival Grants.** These fund PVO programs, often 100 percent AID-funded, which focus mainly on immunization and oral rehydration therapy.

**Ocean Freight Reimbursement Program.** Under a set formula, AID reimburses PVOs for the cost of shipping supplies, donated by both the U.S. government and private sources, for humanitarian and development programs abroad. Most of this is P.L. 480 food.

**P.L. 480 Title II.** In cooperation with the U.S. Department of Agriculture, the "Food for Peace" program provides for the distribution of surplus U.S. agricultural stores abroad.

**P.L. 480 Title II Outreach Program.** Provides grants to PVOs to improve the effectiveness of food aid programs abroad, mostly in Africa and Latin America, by covering the "logistical and material" support costs of U.S. PVOs engaged in "people-to-people" programs.

**P.L. 480 Title II Enhancement Program.** Assists PVOs to combine development and food aid to "have an important developmental impact." Activities range from well-digging to agricultural development.

**Dairy Products Program (Section 416, Dairy Commodities, Agricultural Act of 1949).** Provides for PVO distribution of surplus dairy commodities.

**U.S AGENCY FOR INTERNATIONAL DEVELOPMENT FISCAL 1986 SUMMARY OF  
PVO ACTIVITIES BY APPROPRIATIONS  
(in Thousands of Dollars)**

<u>AID Appropriated</u>	<u>FY 1986 Request</u>	<u>Actual</u>
Agriculture, Rural Development and Nutrition	71,641	123,962
Population Planning	94,440	105,472
Health	24,250	29,131
Child Survival	0	14,275
Education and Human Resources	41,979	35,937
Selected Development Activities	32,669	42,097
International Disaster Assistance	17,000	25,967
Sahel Development Program	6,500	8,339
Economic Support Fund	24,392	82,272
American Schools and Hospitals Abroad	5,000	7,475
<b>AID Administered</b>		
Excess Property	1,370	1,670
African Refugee Assistance	0	4,362
PL 480 Title II Commodities	234,610	268,833
PL 480 Title II Freight	109,190	221,978
Section 416 Commodities	0	23,000
Section 416 Freight	0	4,100
<b><u>State Department Appropriated</u></b>		
Migration and Refugee Assistance	125,000	86,200
<b>TOTAL STATE AND AID</b>	<b><u>788,141</u></b>	<b><u>1,059,870</u></b>

**Denton Amendment.** Authorizes shipment of humanitarian goods donated by PVOs by the Department of Defense on a space-available basis.

**Biden-Pell Development Education Grants.** A 50 percent matching grant (matching cash or in-kind contributions) to "support PVO efforts to facilitate public discussion within the United States on hunger and related issues to increase the U.S. public awareness of political, economic, technical and social factors relating to poverty and hunger in less developed countries."

Long before the Presidential Commission on World Hunger in 1980 recommended doubling AID assistance to PVOs, Congress had acted to make PVOs quasi-state

organizations by passing P.L. 480 in 1954, which authorized PVOs to distribute surplus U.S. foodstuffs abroad. Legislation passed in 1973 encouraged PVO participation in development projects. Subsequently, AID has prodded PVOs to take on increased responsibilities for development projects.

In a policy paper issued last year, AID articulated this new and potentially far more expansive role for PVOs. Said the report: "In recent years, a hallmark of PVO efforts has been the shift in emphasis from conducting short-range relief projects to planning and implementing long-term programs geared toward eliminating the underlying causes of world hunger and poverty."<sup>15</sup>

As AID's symbiotic relationship with PVOs grows, PVOs find themselves devoting more and more resources to securing federal funds, often at the expense of private fund-raising efforts. Even the rare PVOs that have made significant gains in attracting private support, such as Technoserve, a well-respected Connecticut-based PVO, do not envision any more than 40 percent of their total budget coming from non-federal sources. Most PVOs raise far less from the private sector, thus belying the word "private" in their title.

## ALTERNATIVES TO FEDERAL FINANCING

In the past, PVOs have demonstrated great resourcefulness in securing private support. Between 1919 and 1960, major U.S. religious denominations raised \$4 billion in private donations for relief activities abroad. Often, individual congregations have their own relief programs.<sup>16</sup>

Private foundations and U.S. corporations have underwritten their own programs and contributed to existing PVOs. Corporations engaging in significant humanitarian programs abroad include, but are by no means limited to, The Ford Motor Company, Caltex Petroleum, Dow Chemical Company, The Syntex Company, Xerox Corporation, Chase Manhattan Bank, Union Carbide Corporation, and The Singer Company.<sup>17</sup> Direct investment abroad by U.S. firms also has a beneficial impact in the developing world. Total financial flows from Western companies exceed PVO assistance to the developing world by fifteen-fold.<sup>18</sup>

Churches, corporations, and foundations can all play an important role in providing development assistance abroad and should be encouraged to do so. These non-government financed entities can offer more flexible, less bureaucratic solutions to humanitarian

---

15 U.S. AID, Congressional Presentation Fiscal Year 1988, Main Volume, p. 238.

16 Mark Huber, "Humanitarian Aid," in Doug Bandow, ed., *U.S. Aid to the Developing World: A Free Market Agenda* (Washington, D.C.: The Heritage Foundation, 1985), p. 2.

17 Landrum R. Bolling and Craig Smith, *Private Foreign Aid, U.S. Philanthropy for Foreign Relief and Development* (Boulder, Colorado: Westview Press, 1982), pp. 101-120.

18 Huber, *op. cit.*, p. 5.

development problems, unconstrained by the rigidity of bilateral governmental relations and agency reporting requirements.

### **AN OBSTACLE TO CHANGE: THE PVO LOBBY**

Increased government assistance invariably yields the dividend of greater political clout for PVOs on Capitol Hill. Components of today's PVO Washington lobby include:

**InterAction.** With domestic and international PVO members, InterAction is a clearinghouse for international development issues.

**Private Agencies Collaborating Together (PACT).** Almost entirely funded by AID, this PVO acts as a bridge, providing demonstration funds to PVOs, which later qualify for direct AID support. PACT has secured AID funds for some PVOs that later were declared insolvent or deficient in fulfilling their program objectives.

**Private Agencies in International Development (PAID).** PAID has over 100 member organizations, many of whom are AID recipient PVOs. PAID is supported by contributions from PVOs. It sponsors workshops and takes the case for more development assistance to Congress and the Executive Branch.

**Bread for the World.** This group prepared a widely distributed study guide to accompany the presidential hunger commission's 1980 report. It maintains extensive phone and mailing capabilities used to influence members of Congress.

**The Citizens Network for Foreign Affairs.** The Citizens Network was established at the suggestion of the 1983 Commission on Security and Economic Assistance chaired by Frank Carlucci, now Secretary of Defense. The "Carlucci Commission" originally envisioned the Citizens Network as a privately funded organization to stimulate discussion about, and contributions to, private sector foreign assistance projects. The Carlucci Commission stated that government funds not be used for establishing such a network. Yet its main source of support has been a \$284,000 Biden-Pell grant from AID. The network has published a brochure designed to increase public support for more government foreign aid entitled, "FOREIGN AID: WHO NEEDS IT? WE DO." The network serves as another clearinghouse for PVOs.

**The United Nations.** Many PVOs are also recognized by the U.N. as approved Non-Governmental Organizations (NGOs). These PVOs receive contracts and maintain relationships with various U.N. bodies including the U.N. Development Programme, the U.N. High Commissioner for Refugees, the World Health Organization, the International Labor Organization, the U.N. Fund for Population Activities, the Food and Agriculture Organization, the U.N. Educational, Scientific and Cultural Organization (UNESCO), as well as other NGOs. PVOs that receive or benefit from U.N. funding become an important constituent group demanding that the U.S. maintain its huge annual contribution to the U.N.

**The World Bank.** Much as they do from the U.N., PVOs also receive contracts from the World Bank.

## **PVOs AND U.S. FOREIGN POLICY**

Some PVOs, ironically, were at first hesitant to accept federal funding for fear of becoming tools of U.S. foreign policy. Given the bias of some PVOs, this concern was understandable. In their landmark 1982 book on private development assistance, *Private Foreign Aid: U.S. Philanthropy for Foreign Relief and Development*, scholars Craig Smith and Landrum R. Bolling explain: "Some of the more radical PVOs, following the view of Latin American liberation theology, go further and call for foreign assistance to be used in ways that run contrary to the perceived U.S. economic and political interests in the Third World."<sup>19</sup>

PVOs funded by AID have sponsored conferences sharply critical of U.S. foreign policy, and they have used AID money to develop national education curricula and build popular support for the policies of Marxist governments.

Example: In 1983, the African-American Institute (AAI) sponsored a conference in Zimbabwe that blasted U.S. Africa policy. Speakers included representatives of such terrorist groups as the Southwest Africa People's Organization (SWAPO) and the African National Congress (ANC), and Angola's ruling party, the MPLA.<sup>20</sup> In 1985, AAI hosted luncheons and dinners, overseas and in the U.S., honoring some of the United States' sternest critics in Africa including Jose Eduardo dos Santos, president of Angola; Abdou Diouf, chairman of the Organization of African Unity; and Kenneth Kuanda, president of Zambia. A genuine "private" voluntary organization would be entitled to do this, of course. But AAI is anything but private. It has received almost \$200 million in federal funds, the bulk coming from AID. In 1985, AAI spent \$14 million, \$12 million coming from the Treasury.

**Negates Oversight.** PVOs that receive AID funds and whose leaders are critical of U.S. foreign policy include the American Friends Service Committee, American Refugee Committee, Church World Service, Coordination in Development, International Planned Parenthood Federation, Opportunities Industrialization Centers International, and the Pan American Development Foundation.

Continued funding of these and similar organizations often is a direct function of the political constituencies these PVOs have developed. The political power of these constituencies often negates effective AID oversight and enforcement. Explains one

---

<sup>19</sup> Bolling and Smith, *op. cit.*, p. 198.

<sup>20</sup> David Asman, "Spotlighting Federal Grants #5, The African-American Institute," *Heritage Foundation Institution Analysis* No. 23, March 18, 1983, p. 1.

former AID official, who unsuccessfully fought to mandate increased private sector support for PVOs, "They intimidate you to get off their case."<sup>21</sup>

## **TOWARD PVO REFORM**

Persuading PVOs to accept less federal assistance will be politically difficult. Past attempts to do so, most notably those led by Representative Jerry Lewis, the California Republican, have not been effective. However, reforms must be made to protect the financial integrity of existing programs, encourage PVOs to accelerate private fund-raising efforts, and ensure that the aid provided does not negate local development efforts. These measures should include:

**Defunding the PVO lobby.** Office of Management and Budget Circular A-122 bars non-profit organizations from using federal funds for lobbying. This provision needs to be enforced. PVOs such as PACT and the Citizens Network, which engage in substantial "representation" work on Capitol Hill, should be denied all federal funds immediately.

**Raising PVO private funding requirements.** The bulk of AID assistance to PVOs is in the form of donated P.L. 480 food. Barring dramatic changes in U.S. domestic agricultural policy, P.L. 480 will remain a chief vehicle for disposing of part of America's food surplus and PVOs will continue to play a vital role in this program. However, PVOs should be asked to raise significantly their level of private sector funding. PVOs that cannot attract substantial private sector support do not deserve continued federal funding.

**Intensifying scrutiny of PVO management.** In the wake of audits performed by AID's Inspector General, many PVOs have upgraded management. Yet some recipient PVOs continue their loose management style which breeds inefficiency. U.S. foreign aid resources should not go to PVOs whose executives exhibit ignorance or contempt for such fundamental management tools as bookkeeping. Failing PVOs should be allowed to fail. PVOs that violate their funding agreements with AID should be defunded and declared ineligible for any future federal assistance.

**Ensuring that PVO programs do not subvert development of local markets.** Great care must be exercised when administering PVO programs, particularly P.L. 480 assistance, to prevent disrupting local markets. Such was the case in 1976, when the U.S. shipped large quantities of corn to Guatemala after a devastating earthquake. The local corn crop, far from being destroyed, however, was one of the best ever. U.S. assistance in this case caused a precipitous drop in local prices at a time when the farmers needed income most to repair earthquake damage. In other instances, especially in Africa, P.L. 480 serves to rescue nations from failed statist agricultural policies that discourage local production.

---

21 Interview, August 24, 1987.

Testifying before the Senate appropriations committee in 1983, AID Inspector General Herbert Beckington reported that some P.L. 480 programs "appear to have become little more than open-ended welfare feeding programs with little evidence of the development or educational impact envisioned as the integral goals of the program."<sup>22</sup>

## CONCLUSION

On the whole, American PVOs have relieved much human suffering and fostered much goodwill abroad. PVOs are more efficient, and flexible than comparably administered government aid.

Many of today's PVOs, however, have become little more than quasi-state agencies, consumed with bureaucratic protocol and marshalling political support for their particular programs. As government support of PVOs has grown, private sector interest and backing has waned. This private support must be restored, not through the creation of another PVO lobby such as the Citizens Network, but by better PVO outreach programs, mainly fund raising. "People like to be asked" is a primary dictum of American politics. Faced with an enormous infusion of federal cash, many PVOs apparently would rather run the maze of federal grant requests than turn to private individuals, corporations, or foundations for support.

**Restoring the "Private."** The amount of federal funds PVOs receive has doubled since 1983. In 1981, PVOs received 1.5 percent of AID's annual budget. By 1986, it was 24.5 percent. Given this funding pattern and the pull PVOs have on Capitol Hill, proposals to encourage increased private PVO funding and decreased federal dependence will encounter stiff opposition.

However, if PVOs intend to maintain their independence and rekindle the enthusiasm of the private sector for their programs, serious strategies designed to reduce PVO federal funding must be found. AID's new Administrator, Alan Woods, has the opportunity to do this. Six vacancies exist on AID's Advisory Committee on Voluntary Foreign Aid. Woods should appoint individuals to these positions who are committed to putting the "private" back in PVO.

Prepared for The Heritage Foundation  
by  
Mark Huber,  
a Washington-based consultant

---

22 United States Senate, "Foreign Assistance and Related Programs Appropriations, Fiscal Year 1984, p. 291.

*All Heritage Foundation papers are now available electronically to subscribers of the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GOVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNWS library.*